UNITED STATES
HOUSE OF
REPRESENTATIVES

MONEY TRUST
INVESTIGATION

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MONEY TRUST INVESTIGATION

INVESTIGATION

OF

FINANCIAL AND MONETARY CONDITIONS IN THE UNITED STATES

UNDER

HOUSE RESOLUTIONS NOS. 429 AND 504

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY

PART 17

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

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MONEY TRUST INVESTIGATION.

SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Monday, January 6, 1913.

The subcommittee met at 2.30 o'clock p. m.

Present: Messrs. Pujo (chairman), Brown, Stephens, Byrnes, Daugherty, and Heald.

Present also: Samuel Untermyer, Esq., of New York City, counsel for the committee, and G. Carroll Todd, Esq., assistant counsel for the committee.

TESTIMONY OF MR. WILLIAM W. ARMSTRONG.

The witness was sworn by the chairman.

Mr. UNTERMYER. Mr. Armstrong, will you be good enough to state your full name, residence, and occupation?

Mr. ARMSTRONG. William W. Armstrong, president National Copper Bank, Salt Lake City, Utah.

Mr. UNTERMYER. How long have you been president of the National Copper Bank of Salt Lake City?

Mr. ARMSTRONG. Since its organization, about June 1, 1910.

Mr. UNTERMYER. What was its capital and surplus?

Mr. ARMSTRONG. $500,000 capital and $50,000 surplus.

Mr. UNTERMYER. At the time of the organization of the National Copper Bank, was there a clearing house association in Salt Lake City?

Mr. ARMSTRONG. There was.

Mr. UNTERMYER. And it was known by what name?

Mr. ARMSTRONG. I think it was called the Salt Lake City Clearing House Association.

Mr. UNTERMYER. What was the membership of that association?

Mr. ARMSTRONG. If I recollect correctly, there were seven members.

Mr. UNTERMYER. Were they all Salt Lake City banks?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. Were any of them national banks?

Mr. ARMSTRONG. Three of them, I think, were national banks.

Mr. UNTERMYER. Will you be good enough to state, Mr. Armstrong, the names of the members at that time?

Mr. ARMSTRONG. The Deseret National Bank, the Continental National, the National Bank of the Republic, the Utah National Bank,

McCornick & Co., Walker Bros., bankers, and the Utah Savings & Trust Co. made up the seven.

Mr. UNTERMYER. Was McCornick & Co. a corporation or a partnership?

Mr. ARMSTRONG. It was a corporation at that time, at the time we entered the clearing house.

Mr. UNTERMYER. And has it been since then?

Mr. ARMSTRONG. It has.

Mr. UNTERMYER. Do you know by whom it is owned?

Mr. ARMSTRONG. I understand it is owned by Mr. McCornick and his associates.

Mr. UNTERMYER. How about the other member, Walker Bros., I think you said?

Mr. ARMSTRONG. That, I understand, is a State bank, owned by Mr. M. H. Walker and his associates.

Mr. UNTERMYER. Upon the organization of your bank, did you apply for membership in the clearing house association?

Mr. ARMSTRONG. We did.

Mr. UNTERMYER. When did you become a member?

Mr. ARMSTRONG. On or about June 1, when we opened for business, 1910.

Mr. UNTERMYER. Did any of the banks of Salt Lake City clear through clearing house banks, or were they all members of the association?

Mr. ARMSTRONG. I understand, if I recollect aright, that the Merchants' Bank at that time cleared through some other bank. I can not recall the bank. They have since joined the clearing house.

Mr. UNTERMYER. Did any of the banks in the surrounding neighborhood clear through clearing-house banks of Salt Lake City?

Mr. ARMSTRONG. No. There were two local banks, if I recollect aright, that did clear at that time, and do clear yet, through members of the clearing house—the Zion Savings Bank & Trust Co. and the Salt Lake City Security & Trust Co.

Mr. UNTERMYER. Was Mr. McCornick connected with any of the banks in the clearing house association at that time in 1910 other than McCornick & Co.?

Mr. ARMSTRONG. Yes, sir.

Mr. UNTERMYER. With what other banks was he identified?

Mr. ARMSTRONG. The Utah Savings & Trust Co. as president, if I recollect aright, and the Utah National Bank as president.

Mr. UNTERMYER. Had he interests in other Salt Lake banks?

Mr. ARMSTRONG. Not to my knowledge.

Mr. UNTERMYER. Having become a member of the clearing house association, did anything happen subsequently in that association to disturb or interfere with your continued membership? If so, when, and what happened?

Mr. ARMSTRONG. On October 24, 1910, the National Copper Bank received a communication from the executive committee of the Salt Lake City Clearing House Association.

Mr. UNTERMYER. Will you produce that letter?

Mr. ARMSTRONG. Here it is.

The letter referred to was marked "Exhibit No. 143."

Mr. UNTERMYER. I will read this letter [reading]:

EXHIBIT 143.

THE SALT LAKE CITY CLEARING HOUSE,
October 24, 1910.

NATIONAL COPPER BANK, *City.*

GENTLEMEN: At a meeting held Monday, October 24, 1910, of the executive committee of the Salt Lake City Clearing House, all members being present, the following was unanimously adopted, viz:

"Whereas it is contrary to the ethics of banking to solicit the account or business from any customer where banking relations have already been established: Therefore be it

"*Resolved*, That the following be inserted in the rules of the Salt Lake City Clearing House, to take effect immediately, and shall be designated as section 10–B of rules:

"'Section X–B. No bank official, director, agent, attorney, or employee shall solicit, by offering special inducements or other monetary considerations, the account or business of any customer of another bank where banking relations have already been established.'"

The secretary was instructed to call attention to section XI of rules, as follows:

"A violation of any provision of these rules shall be punishable by a fine of $500 for the first offense, a fine of $1,000 for the second offense, and by expulsion from the clearing house for the third offense, and a refusal to pay a fine imposed under the provision of this section shall be punishable by expulsion."

Respectfully, yours,

L. H. FARNSWORTH, *Secretary.*

All these members of the clearing house association except your bank were old established banks, were they?

Mr. ARMSTRONG. Yes, sir.

Mr. UNTERMYER. And you say your bank had just been established and was trying to get business?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. Did you answer this letter?

Mr. ARMSTRONG. I did. Here is a carbon copy of the answer.

The letter referred to was marked "Exhibit No. 144."

Mr. UNTERMYER. I will read this reply [reading]:

EXHIBIT 144.

NOVEMBER 10, 1910.

L. H. FARNSWORTH,
Secretary Executive Committee
Salt Lake City Clearing House, City.

DEAR SIR: Your communication of October 24, inclosing rule—Section X–B—was duly received, and at the first opportunity has been laid before the board of directors of this bank at the regular meeting held yesterday. The board has authorized me to advise the executive committee of the Salt Lake City Clearing House as follows:

We feel that the connection of this bank with the Salt Lake City clearing house is of material benefit in conducting the detail work of the bank. We also consider it an honor to be a member of your association. We expect to live up to your rules both in spirit and in letter so long as we are a member thereof, not desiring to share the benefits without also assuming the burdens as such member. Our banking experience and observation of the business methods of many of the leading banking institutions throughout the United States inclines us to the belief that the resolution which serves as a preamble to the above-mentined rule is not correct in point of fact, and we desire to

protest against the ethical rule laid down therein, wishing to go on record as refusing to subscribe or assent thereto.

Regarding the rule itself—Section X–B—we find that this rule, as we construe it, is vague, indefinite, and utterly incapable of application; that we are unable to determine what is meant, what it intends to convey, or what line of conduct it aims to impose upon the members of the clearing house.

We beg to remain,

Very respectfully, yours, W. W. ARMSTRONG, *President.*

Was there any answer to that?

Mr. ARMSTRONG. There was. Here it is.

The letter referred to was thereupon marked "Exhibit No. 145, January 6, 1913."

Mr. UNTERMYER. I will read it [reading]:

EXHIBIT 145.

THE SALT LAKE CITY CLEARING HOUSE,
November 14, 1910.

THE NATIONAL COPPER BANK,
Mr. W. W. Armstrong, President, City.

DEAR SIR: Referring to your communication of November 10, 1910, relative to rule—Section X–B of the clearing house—I beg to advise that a meeting of the executive committee was held this morning, there being a full quorum present, at which meeting your letter was presented and duly considered.

For your information I beg to advise the following action thereon, viz:

"The communication of November 10 of the National Copper Bank, referring to rule—Section X–B—and protesting against the ethics of the preamble and refusing to subscribe or assent thereto, was presented and duly considered.

"On motion, unanimously adopted, the secretary was instructed to acknowledge the receipt of said communication and advise said bank that the rule so adopted on October 24, 1910, is now in force and will remain in force from the date of its adoption until revised by the association; that under section 1, article 10, a meeting of the association may be called for the consideration and revision of said rule."

If it is your wish that a meeting of the clearing house association be called, kindly so advise me.

Yours, very truly, L. H. FARNSWORTH,
Secretary.

What followed that?

Mr. ARMSTRONG. There was nothing done for some time. At a subsequent meeting, however, I brought the matter up, and it was referred to the executive committee to draw another rule.

On or about the 12th day of January, 1912, they presented to the clearing house association for its adoption or rejection a new rule to take the place of this rule, Section X–B.

Mr. UNTERMYER. Were you advised of that?

Mr. ARMSTRONG. We were. It was put to a vote in the clearing house association and every member of the association, eight members, voted in favor of it. The National Copper Bank refused to vote, stating that it wished to submit the question to its board of directors before taking action.

The next day we received this letter [handing letter to counsel for the committee].

The letter referred to was thereupon marked "Exhibit No. 146, January 6, 1913."

Mr. UNTERMYER. I will read this [reading]:

EXHIBIT 146.

THE SALT LAKE CITY CLEARING HOUSE,
January 12, 1912.

NATIONAL COPPER BANK,
City.

GENTLEMEN: At a meeting of the Salt Lake City Clearing House Association held January 11, 1912, the following rule was adopted:

Whereas it is recognized that fair competition in the banking business, as in all others, is a well-established and desirable principle, the soliciting or bidding for accounts subject to check by offering to pay interest on daily balances is demoralizing in its tendencies and a practice to be severely condemned; and

Whereas it is claimed by members of this association that it is necessary for them to pay interest on certain existing checking accounts in order to keep their customers from depositing in other cities, or for other reasons which are proper and unassailable: Therefore be it

Resolved, That in order to prevent the practice of offering to pay interest on accounts subject to check in an endeavor to induce the severance of well-established relations or to procure new business, and in order also to uphold and maintain existing relations which are regarded as legitimate and beyond criticism, the following be inserted in the rules of this association, to take effect immediately, to be substituted as section 10–B:

SECTION 10–B.

"No member of this association shall directly or indirectly pay interest on an open or checking account, except to banks as provided for in section 8; *Provided*, That where arrangements heretofore have been made between a member of this association and a depositor which require the payment of interest, they shall not be disturbed: *And provided further*, That should it become necessary for any member of this association to pay interest on a checking, or an open account, permission so to do must first be obtained from the executive committee, to which committee the facts and reasons therefor shall be presented: *And provided*, That public funds shall not be subject to this rule."

Yours, very truly,

T. W. BOYER, *Secretary.*

Referring to that letter, do you know whether the other and old-established banks there were paying interest on accounts?

Mr. ARMSTRONG. I have been advised by customers and by others that they were.

Mr. UNTERMYER. Did you reply to this letter?

Mr. ARMSTRONG. The letter was laid before the board of directors of the National Copper Bank, and they instructed me, as their president, to vote "no" at the next meeting of the clearing house. I prepared an answer, setting forth the views of the bank on the subject.

Several meetings were held in the interim, and on April 24, at a meeting of the clearing house, a vote on this question was demanded from the National Copper Bank. I voted "no," and I submitted its reasons in writing.

Mr. UNTERMYER. By a letter, of which this is a copy [indicating]?

Mr. ARMSTRONG. Yes.

The letter referred to was thereupon marked "Exhibit No. 147."

Mr. UNTERMYER. I will read it [reading]:

EXHIBIT 147.

APRIL 29, 1912.

CLEARING HOUSE ASSOCIATION,
Salt Lake City, Utah.

GENTLEMEN: At the last meeting of the clearing house association, as a representative of the National Copper Bank of this city, I refrained from voting either in favor of or against the adoption of section 10–B, giving my reason at that time that I desired to submit the question as to whether or not the National Copper Bank was in favor of or against the adoption of said resolution to the board of directors of said bank. Since then I have submitted the matter to the board of directors of the National Copper Bank, and now desire to inform you that the board of directors of the bank which I represent has instructed me to vote against the adoption of said section 10–B and to protest against the adoption of said section and the enforcement thereof in case the same should be adopted by the clearing house association.

The National Copper Bank finds itself unable to abide by the provisions of section 10–B, and takes this opportunity of notifying the clearing house association that it does not intend to abide by the same.

I have been advised that the adoption by the clearing house of this section and the acquiesence in the same by the members of the clearing house association is, and will be, illegal as against public policy.

I have also been advised that membership in the clearing house clothes each member with an interest in its property and benefits, which you, of course, recognize is of very great value to every member thereof. This interest in the property and benefits accruing to a membership in the clearing house association. I have been advised, constitutes a valuable property right, which the courts will protect and maintain, and that any member of the clearing house association whose property rights are sought to be interfered with by an attempt to enforce the provisions of this illegal section, can seek and secure redress in the courts.

In this connection I desire to state that there is now pending in the court of Allegheny County, Pa., a suit wherein certain members of the clearing house association are seeking to enjoin the clearing house association and certain members thereof from adopting and attempting to enforce certain provisions of the articles of association of the Pittsburgh clearing house, which, in some respects, are very similar to section 10–B of our local association. This suit has not yet been determined, as I am advised, and I would respectfully suggest that section 10–B of the rules of our local clearing house association be suspended pending the final determination of this case. I believe that the clearing house association is making a great mistake in attempting to enforce section 10–B, and that no good can come from it. For any combination of banks, whether chartered under the national law or the State statute, to enter into a combination to regulate in an arbitrary way the amount of interest that any bank belonging to the association shall pay upon its account, or upon daily balances of banks or individuals, I have been advised is against public policy and void, and is an encroachment upon the rights of the respective banks to carry on their business by and through their respective boards of directors, amounting thus to a delegation of power by the board to unauthorized persons, which is contrary to the provisions of the statutes under which each bank is incorporated. Such a rule if acquiesced in would subject the members of the clearing house to very severe criticism, if not to a prosecution upon a conspiracy in restraint of trade and commerce.

While, of course, it is true that any member of the clearing house, not wishing to acquiesce in this rule, has the privilege of withdrawing therefrom or being expelled from membership therein, still this condition of affairs would be exceedingly undesirable, and would subject the withdrawing member or the expelled member to very material financial loss, and deprive it of a valuable property right.

I have placed the view that the National Copper Bank takes upon this subject in writing, so that there may not be any misunderstanding as to its position, and desire again to state that that bank protests against the adoption and enforcement of section 10-B, and that it will not abide by the same in case said section shall be adopted, and reserves to itself the right to take such steps as it may be advised to protect its interest as a member of the clearing house association.

Very respectfully,

W. W. ARMSTRONG,
President.

Following the receipt of that letter, what happened?

Mr. ARMSTRONG. The withdrawal of the National Copper Bank was demanded.

Mr. UNTERMYER. Who demanded its withdrawal from the association?

Mr. ARMSTRONG. I recall that Mr. Burton, the secretary of the association, demanded it. There were others but I cannot recall their names.

Mr. UNTERMYER. What happened then?

Mr. ARMSTRONG. On behalf of the National Copper Bank, I declined to withdraw, for the reasons set forth in my letter.

Mr. UNTERMYER. What happened next?

Mr. ARMSTRONG. The association thereupon adjourned, and, if I recall aright, met in one week to consider the expulsion from their body of the National Copper Bank.

At the next meeting no reference was made to expulsion. Mr. McCornick, representing McCornick & Co., moved that the association dissolve, distribute its assets, and retire from business. This motion was seconded, and an adjournment was taken for one week to afford time for the consideration of questions pertaining to such dissolution.

Mr. UNTERMYER. Following that, were there frequent adjournments of the association for the same reasons?

Mr. ARMSTRONG. Thereafter, until June 1, 1912, or about that date, weekly adjournments were had.

Mr. UNTERMYER. What happened in the meantime as between the National Copper Bank and the clearing house association?

Mr. ARMSTRONG. About May 24, 1912, the vice president of the clearing house association, Mr. Boyer, presented to the president of the National Copper Bank, with a request that it sign the same, a document purporting to be rules adopted by a new clearing house association which was being formed. This document carried the signatures of eight banks of Salt Lake City, who, with the National Copper Bank at that time constituted the clearing house association.

Mr. UNTERMYER. Have you a copy of the document which you were requested to sign?

Mr. ARMSTRONG. I have.

Mr. UNTERMYER. Is that the document which was finally adopted by the new clearing house association?

Mr. ARMSTRONG. That I could not say.

Mr. UNTERMYER. Let us have the document that you were requested to sign. We will offer that in evidence.

The witness produced the document referred to, which was thereupon marked "Exhibit No. 148," January 6, 1913, and will be found at the end of to-day's proceedings.

Mr. UNTERMYER. I will read from that a few paragraphs. It is already in evidence. It is headed, "Constitution of the Salt Lake Clearing House Association."

The particular parts of this constitution to which it is necessary to call the attention of the committee at this time are as follows:

9. No member shall directly or indirectly pay interest upon an open or checking account, excepting upon the accounts of banking institutions, and in no case shall interest be allowed to such institutions upon daily balances at

a rate in excess of 2½ per cent per annum: *Provided*, That where arrangements have heretofore been entered into between a member of the association and a depositor not a banking institution, which require the payment of interest, they shall not be disturbed, and the same arrangement may be continued by any other member succeeding to the account: *And provided further*, That application may be made by a member to the executive committee for permission and permission may be granted, to pay interest upon a checking or open account upon a statement in writing of the facts and reasons therefor.

Then, a little further down [reading]:

10. The following charges shall be made upon escrow.

Then follow prescribed amounts that must be charged upon escrow.

Then, a little further down:

No charge need be made upon drafts issued to the Government of the United States, or its disbursing officers, to express companies, to telegraph companies, to interstate railroad companies, or their subsidiary companies; to nonresident customers, to banks in Salt Lake City or their correspondent banks, etc.

Then:

A charge shall be made upon all telegraphic transfers of not less than the following rates.

Then follow prescribed rates and charges that must be made.

Then there is a long schedule of charges that are required to be made for various kinds of business conducted by the banks.

I read further:

SEC. 20. Applications for contributions from members of the association to charities, celebrations, excursions, local organizations, etc., shall be referred to the executive committee: *Provided*, That any member may contribute not to exceed the sum of $10 to such purposes, without reference to the committee.

Was there anything that you could think of with respect to the business of the bank which was left to its directors under this constitution?

Mr. ARMSTRONG. Very little.

Mr. UNTERMYER. What happened after the presentation of that document for your signature and the refusal of your bank to sign it?

Mr. ARMSTRONG. The National Copper Bank, after full consideration by its counsel and the directors of the rules proposed for a new clearing house association, declined to sign the same, or to accept a membership under the conditions sought to be imposed, for the reason that the rules offered by the new association did not differ in substance from those of the existing association to which the National Copper Bank had declined to submit, and for the further reason that it believed submission to the proposed rules delegated a control over its affairs to others than its directors.

On June 1, 1912, the clearing house association received the written withdrawal notice of eight members, leaving the National Copper Bank the sole remaining bank of such association.

Mr. UNTERMYER. That is, they all drew out and left you alone?

Mr. ARMSTRONG. Yes; we are alone yet.

Mr. UNTERMYER. There was nothing for you to clear with then, was there?

Mr. ARMSTRONG. Except with ourselves. The eight members so withdrawing immediately thereafter formed a new clearing house association, which again presented to the National Copper Bank its proposed constitution and by-laws and urged the bank's representa-

tive to sign the same. This was the complete transaction. The National Copper Bank again declined to sign the same.

Mr. UNTERMYER. The document they then presented to you as the constitution of the new association was the document that you have presented here?

Mr. ARMSTRONG. It is. And it was duly signed by the other eight banks before it was brought to us to sign.

Mr. UNTERMYER. Is that the present situation in Salt Lake City with respect to the clearing house association?

Mr. ARMSTRONG. Yes, sir.

Mr. UNTERMYER. Then there is a new association with all the other members in, and you are alone?

Mr. ARMSTRONG. Yes, sir.

Mr. UNTERMYER. In the old association?

Mr. ARMSTRONG. Yes, sir.

Mr. UNTERMYER. And the new association, you say, has adopted this constitution?

Mr. ARMSTRONG. It has, to the best of my knowledge and belief.

Mr. UNTERMYER. Does your bank do business outside of the State of Utah?

Mr. ARMSTRONG. It is engaged in a general banking business in Utah, Idaho, Nevada, Wyoming, and has numerous correspondents in other States.

Mr. UNTERMYER. In what respect have you lost the advantages of clearance as between the banks in Salt Lake City, and what has been the effect of that loss upon your business?

Mr. ARMSTRONG. Since June 1, 1912, it has not been afforded the conveniences or privileges enjoyed by the other banks of Salt Lake City because of its refusal to subscribe to the illegal rules of the new association, and has transacted its business subject to coercive measures.

Mr. UNTERMYER. What do you mean by that? Will you be good enough to specify anything that these other banks assembled in the new asociation have done to embarrass your bank in its interstate business?

Mr. ARMSTRONG. Such coercive measures are as follows:

From June 1, 1912, and until July 22, 1912, the eight banks comprising the new clearing-house association accepted from the National Copper Bank all checks received by it.

On July 20, 1912, the associated banks entered into a conspiracy——

Mr. UNTERMYER. Just a moment, Mr. Armstrong. I do not think we want to characterize their acts. If you will just tell us the particular acts they did, that will answer the purpose of this record, I think.

Mr. ARMSTRONG. On that date, without notice——

Mr. UNTERMYER. What did they do?

Mr. ARMSTRONG. They refused to accept items on correspondent country banks, all of them. They refused to settle with us except for cash.

Mr. UNTERMYER. That is to say, if you had a check from a correspondent bank, drawn on one of these eight banks——

Mr. ARMSTRONG (interposing). No; if we had a check drawn on a correspondent bank of one of these eight banks, naturally through

the process of the clearing house we would take it up, and they would accept it as if it was against themselves.

Mr. UNTERMYER. Yes.

Mr. ARMSTRONG. On that date, without notice, the eight banks, Monday morning, refused to accept them any further, although they had done that from June 1 to July 22. Hence we had to send every one of those checks directly to the banks on which they were drawn, and to submit ourselves to the payment of exchange and time and expense in getting it in that way. That is one thing they did.

Another thing: It is customary, and has been customary among the banks of Salt Lake, to accept cashier's checks for balances, either debit or credit, between the banks in settlement between one another. They refused to accept or give cashier's checks, demanding payment in coin or in money, either way. Before July 22 it was the custom among the clearing house banks to give a bank that paid a check until half-past 2 to return the same, if it found it not good, through its bookkeepers. They stated to us at that time that we would have no time whatever; that when we paid a check it was a final settlement on that check and we could not bring it back, and that they applied the same rule to themselves. It had been the custom in the past for the banks not to require a written indorsement on a check to be paid between the banks of the city. They required us to have the written indorsement of some authorized person, the written signature of some authorized person, on the back of every check that we cashed through them.

Mr. UNTERMYER. How did that embarrass you?

Mr. ARMSTRONG. It required time; it required additional messenger service; it required additional clerks; it required additional guards for money. We were, and are yet, trotting all up and down the streets of Salt Lake City between the banks with an automobile and guards and money and messengers—something that is not required of any other bank in Salt Lake City.

Mr. UNTERMYER. Did anybody raise any question about your responsibility?

Mr. ARMSTRONG. No; there never has been.

Mr. UNTERMYER. Are there directors in your bank who are directors in the other banks?

Mr. ARMSTRONG. No. I beg your pardon. There is one such director.

Mr. UNTERMYER. Are there not four directors in the Copper Bank who are directors in the First National Bank of Park City?

Mr. ARMSTRONG. Yes; that is outside——

Mr. UNTERMYER. Outside?

Mr. ARMSTRONG. Outside of the clearing house.

Mr. UNTERMYER. What did the Salt Lake City banks in the clearing house do with respect to the Park City Bank, with which the Copper Bank was identified, by reason of having four directors in that bank?

Mr. ARMSTRONG. I was advised that they were considering the advisability of retaliating against the Copper Bank by starting another bank in Park City.

Mr. UNTERMYER. That did not materialize, did it?

Mr. ARMSTRONG. No; it did not materialize.

Mr. UNTERMYER. How near is Park City to Salt Lake City?

Mr. ARMSTRONG. Thirty miles.

Mr. UNTERMYER. What I want to ascertain is whether or not anything was done with respect to embarrassing the business of the Park City Bank as a result of this controversy between you and the clearing house and your refusal to subscribe to these rules?

Mr. ARMSTRONG. Yes; there were several acts.

Mr. UNTERMYER. Will you not be good enough to specify?

Mr. ARMSTRONG. The associated banks of Salt Lake City adopted a measure of collecting the checks which they received over their counters of the First National Bank of Park City—not all of them, but part of them—by sending them to Park City, a mining camp thirty odd miles away, by Wells-Fargo Express, collect. That would be calculated to injure the bank in the minds of customers and of the public.

Mr. UNTERMYER. Had you offered to pay the checks?

Mr. ARMSTRONG. I had notified every bank in the city that we would pay on presentation at the window any check against a correspondent bank of ours.

Mr. UNTERMYER. Then, had you or had you not offered to pay these checks in cash?

Mr. ARMSTRONG. I had.

Mr. UNTERMYER. Drawn on the Park City Bank, if they were presented to you in Salt Lake City?

Mr. ARMSTRONG. I did.

Mr. UNTERMYER. Yes. Was it or not after you had offered to pay them that the other banks would send them by express, collect?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. To Park City?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. And demand the money?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. What effect would that have upon your keeping of money in cash?

Mr. ARMSTRONG. We had to keep a very much heavier reserve, inasmuch as the checks were not going through the natural course of business. We do not care to carry any more money in a mining camp than we can help.

Mr. UNTERMYER. Did they have checks there which came in by express?

Mr. ARMSTRONG. Yes; later on there was a specific case, even more flagrant than that, which was when one bank—the Bank of the Republic—had some $32,000 in checks on the First National Bank of Park City, and its president and vice president took the checks and proceeded to Park City and presented them at the window and demanded cash; and it was well known to the various citizens around the town that they were going to present them before they presented them.

Mr. UNTERMYER. Did the little bank in Park City have the money?

Mr. ARMSTRONG. Yes; we had the money.

Mr. UNTERMYER. You had to keep the currency?

Mr. ARMSTRONG. Yes; the law requires that we had to carry on hand 7 per cent at all times, but for this particular emergency it required 15 to 20 per cent in cash.

Mr. UNTERMYER. And was this after you had offered to pay those checks in Salt Lake City, without having them sent up to Park City?

Mr. ARMSTRONG. It was. I made that offer on June 1. This presentation was made November 22.

Mr. UNTERMYER. Is your bank prepared to join a clearing-house association that confines itself to the business of clearing checks between its members?

Mr. ARMSTRONG. We most certainly are. We believe in them. We want to join a clearing-house association.

Mr. UNTERMYER. What does it cost you to conduct your business in this way, outside of the association, over and above what would be the cost of doing business in the association?

Mr. ARMSTRONG. In labor, clerk hire, messengers, guards, and machines, it costs from $10,000 to $15,000 a year to carry on the same business more than it would if we were in the clearing house. We have to carry a very much heavier reserve than we certainly would or than the law requires, anticipating onslaughts by our sister banks.

Mr. UNTERMYER. Are you otherwise embarrassed in the conduct of your business, apart from this money loss; and if so, in what way?

Mr. ARMSTRONG. No, sir; we are not. We are not embarrassed; not worried. We feel ourselves to be impregnable; absolutely able to take care of the balance of it.

Mr. UNTERMYER. What was the particular point of your objection to these rules?

Mr. ARMSTRONG. That they were in restraint of trade.

Mr. UNTERMYER. In what respect?

Mr. ARMSTRONG. Also that they delegated an authority to parties who had no interest in the bank, by the board of directors, who had sworn to manage the bank themselves.

Mr. UNTERMYER. Wherein did you find that the rules were in restraint of trade?

Mr. ARMSTRONG. By a consultation with our counsel.

Mr. UNTERMYER. No, no; by what act?

Mr. ARMSTRONG. What act?

Mr. UNTERMYER. Yes.

Mr. ARMSTRONG. An act of them saying to whom, when, and how we should pay interest on daily balances.

Mr. UNTERMYER. They prevented you from soliciting business, did they not? I mean from offering inducements?

Mr. ARMSTRONG. If we had followed out the rule, and such rules as they might form, we never would get a bank. They were all over 20 years of age. We were new ones; we had to get our business, and we got it along legitimate lines that are practiced in every city in the United States.

Mr. UNTERMYER. What are your deposits?

Mr. ARMSTRONG. Our deposits are in excess of three millions of dollars. They have increased 20 per cent since June 1, 1912, legitimately and regularly, in the additional business.

Mr. UNTERMYER. You have not been hurt by this, then, have you?

Mr. ARMSTRONG. Well, I do not know. Other national banks in the city of Salt Lake conduct their business for from $15,000 to $20,000 less, for the volume of business, than we do. We ought to

have an even show, under a Federal charter, with any other bank in Salt Lake City—if you will pardon me for making my argument.

Mr. UNTERMYER. Yes.

Mr. ARMSTRONG. And naturally we feel a little strongly on this subject.

Mr. UNTERMYER. Do I understand you, then, that you felt that this was an attempt to destroy your power to compete for business?

Mr. ARMSTRONG. We felt that it was simply trying to put us out of business, not to give us an opportunity to build up a business that we had a legitimate right, under our Federal charter, to, we being in that community, as long as we lived up to the laws of Congress with relation to national banks. We felt that we were entitled to run our own bank in our own way under the law.

Mr. UNTERMYER. Is there any particular interest there in Salt Lake City that dominates the situation?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. What is it?

Mr. ARMSTRONG. W. S. McCornick.

Mr. UNTERMYER. In what way does he dominate the situation?

Mr. ARMSTRONG. Mr. McCornick is a very able and strong man. He has the leading bank in the city. He has been there for over 40 years. He is a very wealthy man.

Mr. UNTERMYER. Is he interested in some of the other banks?

Mr. ARMSTRONG. Yes, he is; the Utah Savings & Trust Co. he is president of. At the time of this trouble of June 1, 1910, he was president of the Utah National Bank. He was president of at least three out of nine banks.

Mr. UNTERMYER. Did you object to having the association determine for you whether you should give a customer a check book or be required to charge him for it?

Mr. ARMSTRONG. No; I can not say we ever objected to that. That was in the old rules. We lived up to the rules faithfully, in spirit and in letter, as far as we could. There have been sporadic cases where we have issued check books free. I am perfectly willing to admit that.

Mr. UNTERMYER. You mean secretly, in violation of the rule?

Mr. ARMSTRONG. No; I do not know that I did it very secretly.

Mr. UNTERMYER. Why should not a bank be allowed to determine for itself what policy it should pursue with its own customers? Do you know of any reason?

Mr. ARMSTRONG. Mr. Untermyer, that is why we are here; we want to know why.

Mr. UNTERMYER. There are many customers whom it would pay you to give check books and a great many other things to, are there not?

Mr. ARMSTRONG. Yes; it would. We have 5,000 customers, 2,500 checking and 3,500 savings accounts, and we want to build up a business, and we have not started yet, and we can not afford to be tied down by other men, operating a Federal bank and with a Federal charter.

Mr. UNTERMYER. Is there anything else?

Mr. ARMSTRONG. I would like to say just one thing to the committee to show the animus that has animated the banks of Salt Lake City.

Mr. UNTERMYER. These other gentlemen are here, and they have been subpœnaed?

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. That is, the committee has invited them to come here, and they are here.

Mr. ARMSTRONG. Yes.

Mr. UNTERMYER. I think the committee would like to hear what you have to say. The committee does not want to know anything about the animus. They want to know what the facts are.

Mr. ARMSTRONG. The secretary of the clearing house association said to me last fall, "We are going to make you sign the rules. It is eight to one, and a fight to a finish, and we are going to bring you to your knees." That is a fact.

Mr. UNTERMYER. Is that all, Mr. Armstrong?

Mr. ARMSTRONG. That is all I care to say.

Witness excused.

TESTIMONY OF WILLIAM S. McCORNICK.

The witness was sworn by the chairman.

Mr. UNTERMYER. What is your full name, please?

Mr. MCCORNICK. W. S. McCornick.

Mr. UNTERMYER. William S. McCornick?

Mr. MCCORNICK. William S.; yes, sir.

Mr. UNTERMYER. Where do you reside?

Mr. MCCORNICK. Salt Lake City.

Mr. UNTERMYER. What is your business?

Mr. MCCORNICK. Banking.

Mr. UNTERMYER. What is your firm or corporation?

Mr. MCCORNICK. McCornick & Co.

Mr. UNTERMYER. Is it a corporation?

Mr. MCCORNICK. It is.

Mr. UNTERMYER. It succeeded to a firm of the same name, did it not?

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. That is, you turned the firm or the business over to a corporation of the same name as had been that of your firm previously?

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. Are you interested in a number of banks in Salt Lake City?

Mr. MCCORNICK. I am interested in one.

Mr. UNTERMYER. Which is that?

Mr. MCCORNICK. The Utah Bank & Trust Co.

Mr. UNTERMYER. The Utah Savings & Trust Co.?

Mr. MCCORNICK. The Utah Savings & Trust Co.; yes, sir.

Mr. UNTERMYER. Are you not interested as a director in any of the other banks?

Mr. MCCORNICK. No, sir.

Mr. UNTERMYER. Are certain of your directors interested as directors in other Salt Lake banks?

Mr. MCCORNICK. There is one.

Mr. UNTERMYER. What?

Mr. MCCORNICK. I think but one.

Mr. UNTERMYER. Which of your directors are interested in other Salt Lake banks?

Mr. MCCORNICK. Mr. D. C. Jacquelin. He is interested in the Utah State Bank.

Mr. UNTERMYER. Is he not also interested in the Salt Lake Security & Trust Co., as vice president?

Mr. MCCORNICK. Yes; he is; come to think about it; yes; he is.

Mr. UNTERMYER. So that he is in three of the eight concerns, is he not?

Mr. MCCORNICK. Yes. Well, that other bank is not counted among the eight—this trust company you spoke of. It is not a member of the clearing-house association.

Mr. UNTERMYER. Which is not a member of the clearing house?

Mr. MCCORNICK. The Salt Lake Security Co.

Mr. UNTERMYER. You know the directors of the Copper Bank, do you not?

Mr. MCCORNICK. I know all of them; yes, sir.

Mr. UNTERMYER. How many of them are codirectors with you in other institutions?

Mr. MCCORNICK. I do not think of but three—two. Two is all I can think of now.

Mr. UNTERMYER. They are well-known men of responsibility, are they not?

Mr. MCCORNICK. Yes, sir.

Mr. UNTERMYER. All reputable business men?

Mr. MCCORNICK. Yes, sir.

Mr. UNTERMYER. The Copper Bank was a member of the old clearing-house association, was it not?

Mr. MCCORNICK. It was; yes, sir.

Mr. UNTERMYER. When was the new association formed?

Mr. MCCORNICK. I do not remember the date.

Mr. UNTERMYER. In 1912, was it not?

Mr. MCCORNICK. I think so, but I do not remember the date.

Mr. UNTERMYER. Have you heard Mr. Armstrong's testimony here to-day?

Mr. MCCORNICK. I heard the most of it. I could not hear all he said.

Mr. UNTERMYER. Has he correctly stated the controversy that resulted in the withdrawal of the other banks from the old clearing-house association and their formation of a new association?

Mr. MCCORNICK. Practically so; yes, sir.

Mr. UNTERMYER. It was the result of the refusal of the Copper Bank to subscribe to these new regulations of the association, was it not?

Mr. MCCORNICK. I do not understand. Will you not give me that again?

Mr. UNTERMYER. The formation of the new association was brought about by the refusal of the Copper Bank to subscribe to the regulations of the old association?

Mr. MCCORNICK. Yes; that was the reason.

Mr. UNTERMYER. If the regulations of the old association were regulations that were enforceable, why did you not expel the Copper

Bank for noncompliance, rather than all of you withdrawing and leaving them alone?

Mr. McCORNICK. It was conceded that there was some difference between the constitution and the by-laws that would have made it rather difficult to expel a member.

Mr. UNTERMYER. You mean that you could not have forced those rules upon the Copper Bank in the old association, could you?

Mr. McCORNICK. We could enforce it, but it would have taken time, and one thing and another. They could have been enforced, I understood.

Mr. UNTERMYER. You think they could have been enforced?

Mr. McCORNICK. That was the advice we had from attorneys. The difference was it would have taken a somewhat longer time.

Mr. UNTERMYER. How long did it take you to get out of the old association and get into the new one?

Mr. McCORNICK. A very short time.

Mr. UNTERMYER. One of the rules that the Copper Bank did not want to adopt related to the nonallowance of interest on deposits, did it not?

Mr. McCORNICK. Yes.

Mr. UNTERMYER. You were allowing interest on deposits in your bank, were you not?

Mr. McCORNICK. On time deposits; yes, sir.

Mr. UNTERMYER. You were trying to prevent the Copper Bank from allowing interest upon its time deposits?

Mr. McCORNICK. Oh, no; not at all; only on checking accounts.

Mr. UNTERMYER. On checking accounts. Do I understand you to say that McCornick & Co. had no checking accounts at that time against which they were allowing interest?

Mr. McCORNICK. No; I do not think so.

Mr. UNTERMYER. But you had some, had you not?

Mr. McCORNICK. We had some.

Mr. UNTERMYER. Then, having some checking accounts yourselves upon which you were allowing interest, what element of fairness was there in trying to prevent a new bank from taking checking accounts and paying interest on them?

Mr. McCORNICK. The accounts that I had and was paying interest upon were railroad accounts, not individual accounts.

Mr. UNTERMYER. Will you tell us why you should have the privilege of giving railroads interest on checking accounts and denying the Copper Bank the right to pay interest on checking accounts to customers other than railroads?

Mr. McCORNICK. They would have the same right to do it on the same kind of accounts.

Mr. UNTERMYER. Where was that right provided for? I do not see it in the constitution.

Mr. McCORNICK. I do not know, but that was understood, that they had the same rights on the same class of accounts.

Mr. UNTERMYER. Let us see about that. You had something to do with preparing this constitution, did you not?

Mr. McCORNICK. Well, not very much.

Mr. UNTERMYER. Did you understand that you gentlemen could get together there, operating national banks, and make an agreement by which your customers should be deprived of interest on their

accounts, and expel a man or a bank that did not choose to observe that regulation?

Mr. McCORNICK. We believed we had that right.

Mr. UNTERMYER. What?

Mr. McCORNICK. I say we believed we had that right.

Mr. UNTERMYER. You thought you had that right?

Mr. McCORNICK. Yes.

Mr. UNTERMYER. To combine together and deprive customers of interest on accounts, and to expel any bank that wanted to pay interest on its accounts?

Mr. McCORNICK. We did not think it good banking to pay interest on checking accounts.

Mr. UNTERMYER. You did not think it good banking?

Mr. McCORNICK. No.

Mr. UNTERMYER. I see. Did you not know that some of the greatest banks in the United States were paying interest on checking accounts?

Mr. McCORNICK. Well——

Mr. UNTERMYER. Did you not know that?

Mr. McCORNICK. They were differently situated from us.

Mr. UNTERMYER. I say, did you not know that?

Mr. McCORNICK. I knew they were, but they were differently situated from us.

Mr. UNTERMYER. Each bank is differently situated from every other bank?

Mr. McCORNICK. No; out there we have no such a thing as demand loans.

Mr. UNTERMYER. Yes.

Mr. McCORNICK. In other places where they have demand loans they can call their money in at any time without notice. They can loan their money out very much closer. With us, we have no demand loans at all. Therefore we have to carry larger balances.

Mr. UNTERMYER. But you get a very much larger rate of interest on your loans, do you not?

Mr. McCORNICK. What?

Mr. UNTERMYER. You get a very much larger rate of interest on your loans?

Mr. McCORNICK. Yes; we probably do.

Mr. UNTERMYER. Do you not know that you do?

Mr. McCORNICK. Yes.

Mr. UNTERMYER. Would not that offset the payment of interest on accounts?

Mr. McCORNICK. No, sir.

Mr. UNTERMYER. You understood that you gentlemen were at liberty to dictate to any other bank and tell them that they should not pay interest on checking accounts?

Mr. McCORNICK. We gave them the same rights we had.

Mr. UNTERMYER. And you understood you had a right to deprive them of any right that you did not have?

Mr. McCORNICK. If they did not conform to the rules and regulations of the clearing house; yes, sir.

Mr. UNTERMYER. Among other things, you made it a flagrant violation of the rules for a man to give a check book to his customer, did you not?

Mr. McCORNICK. I think so, probably. The constitution will speak for what it was; I do not remember exactly.

Mr. UNTERMYER. Why should you interfere with the right of a bank to give a good customer a check book without requiring him to pay for it?

Mr. McCORNICK. The same requirement——

Mr. UNTERMYER. What?

Mr. McCORNICK. We had the same requirement with regard to all the other banks. We did not ask anything different from the Copper Bank.

Mr. UNTERMYER. But by what authority did you assume that you could direct and dictate the business of other banks as to what they should do in dealing with their customers?

Mr. McCORNICK. Well, we may have assumed the authority. I do not know what else.

Mr. UNTERMYER. You are not willing that the Copper Bank shall become a member of the clearing house association of Salt Lake City and give its customers such rate of interest on their checking accounts as they see fit, are you?

Mr. McCORNICK. We are not, surely.

Mr. UNTERMYER. You are not?

Mr. McCORNICK. They were offered to come in under the new association; we offered them the right to come in and join.

Mr. UNTERMYER. Do you not realize that they are at a great disadvantage, as a new bank, in competing with your bank which is 20 years old, unless they can offer their customers some inducement that you do not offer? You realize that, do you not?

Mr. McCORNICK. We were all new at one time. We had to take our chances when we started.

Mr. UNTERMYER. When you started you were not embarrassed by any such regulations, were you?

Mr. McCORNICK. There was no clearing house association at that time.

Mr. UNTERMYER. I say, you were not embarrassed by any such regulations when you started, were you?

Mr. McCORNICK. No; not at all.

Mr. UNTERMYER. Then I repeat my question; do you not realize that through your influence in Salt Lake City and through this association you were imposing a very serious handicap on a new bank if you did not allow it to offer better inducements than you were offering to your customers?

Mr. McCORNICK. If we had taken the same course it would have been a stand-off.

Mr. UNTERMYER. Did anybody object to your taking the same course?

Mr. McCORNICK. We objected ourselves to it.

Mr. UNTERMYER. You wanted to make as much money as you could?

Mr. McCORNICK. I think we made it, too.

Mr. UNTERMYER. Yes. And do you not realize that the result of such an arrangement is very detrimental to the customer if you destroy the right of the banks to compete between themselves for this business?

Mr. McCORNICK. Yes.

Mr. UNTERMYER. You do?

Mr. McCORNICK. Yes.

Mr. UNTERMYER. That is just what you were trying to do, is it not?

Mr. McCORNICK. No; we did not try to do it.

Mr. UNTERMYER. That was the purpose of your rule, was it not, to destroy the opportunity of the customer to have the banks compete between themselves for his business?

Mr. McCORNICK. He had the same opportunities that the rest of us had.

Mr. UNTERMYER. The purpose of your exacting that all of the banks should go into this rule was to destroy the ability of the customer to have one bank compete againt the other, was it not?

Mr. McCORNICK. It was to give him no privileges over ourselves; that was all.

Mr. UNTERMYER. Your rule did not apply to customers outside of Salt Lake City, did it?

Mr. McCORNICK. No.

Mr. UNTERMYER. Why was that? Why should you have one rule to prevent the Copper Bank from paying interest on deposits to a customer in Salt Lake City and another rule that did not prevent him from competing for business outside of Salt Lake City?

Mr. McCORNICK. They had the same right to compete outside as we had.

Mr. UNTERMYER. I know; but what was the reason for this discrimination?

Mr. McCORNICK. Between the country and the city?

Mr. UNTERMYER. Yes.

Mr. McCORNICK. The reason was because all over the country they have got little banks, and we had to give them some little difference.

Mr. UNTERMYER. In other words, if you were trying to get the business of a customer who was outside Salt Lake City you could give him interest on his checking account, could you not?

Mr. McCORNICK. No; I don't know that we could on a checking account.

Mr. UNTERMYER. Could you not under the rule?

Mr. McCORNICK. No.

Mr. UNTERMYER. You could give him more than 2½ per cent interest, could you not?

Mr. McCORNICK. No; the banks we did give 2½ per cent to.

Mr. UNTERMYER. What?

Mr. McCORNICK. We are now and were then paying 2½ per cent interest to all banks outside of the city.

Mr. UNTERMYER. We are not speaking of banks now. We are speaking of your customers outside of Salt Lake City.

Mr. McCORNICK. No; not for checking accounts.

Mr. UNTERMYER. What was the discrimination that you were making in favor of customers who were outside of Salt Lake City?

Mr. McCORNICK. We need not charge them any exchange.

Mr. UNTERMYER. What is that?

Mr. McCORNICK. I say that we need not charge them any exchange.

Mr. UNTERMYER. That was in order to compete with the outside banks, was it not?

Mr. McCORNICK. Yes.

Mr. UNTERMYER. In other words, where you had competition you let down the bars; but where you had none you got all you could out of the customer? Was not that it?

Mr. MCCORNICK. Perhaps you might look at it in that light.

Mr. UNTERMYER. That is about the right light, is it not?

Mr. MCCORNICK. We had to offer some inducements for them to do business in the city.

Mr. UNTERMYER. You mean to people who were outside?

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. As to them, you had to compete with the other banks?

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. Outside?

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. Is that the reason you offered them better inducements?

Mr. MCCORNICK. That was the reason.

Mr. UNTERMYER. Why should you not have allowed the Copper Bank to offer those inducements.

Mr. MCCORNICK. We did.

Mr. UNTERMYER. To people inside?

Mr. MCCORNICK. Inside?

Mr. UNTERMYER. Yes.

Mr. MCCORNICK. Well, we did not want for ourselves that right.

Mr. UNTERMYER. And not wanting it for yourselves——

Mr. MCCORNICK. We wanted to give them equal rights with ourselves—rights equal to the rights of any member of the association.

Mr. UNTERMYER. Is that the only explanation you care to make of the treatment you have accorded the Copper Bank in the clearing house association?

Mr. MCCORNICK. I think that is sufficient.

Mr. UNTERMYER. And are you still insisting that every member of the association shall abide by these rules and allow no interest on checking accounts?

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. You are?

Mr. MCCORNICK. Yes, sir; except those that I referred to in the beginning.

Mr. UNTERMYER. You mean except those that you already had?

Mr. MCCORNICK. Yes; the accounts that we had, and the railroad accounts.

Mr. UNTERMYER. Is it not a fact that all the accounts you had when the rule went into effect and on which you continued to pay interest, you are continuing to pay interest on whether they are railroad accounts or other accounts? Is not that right?

Mr. MCCORNICK. Yes; that is right.

Mr. UNTERMYER. And what proportion of your business would you say you are paying interest on now?

Mr. MCCORNICK. Well, I do not know; I could not tell without looking it up. I have not any good idea.

Mr. UNTERMYER. You are still paying interest on a large number of your deposits, are you not?

Mr. MCCORNICK. Well, yes; on a considerable amount, considering the time deposits.

Mr. UNTERMYER. But a new bank that comes in there and wants to get into the association can not pay interest on any accounts?

Mr. MCCORNICK. Certainly he can.

Mr. UNTERMYER. Well, on what?

Mr. MCCORNICK. He can pay interest on time deposits all he likes.

Mr. UNTERMYER. I mean on checking accounts? We are speaking of checking accounts. He can not pay interest on any checking account?

Mr. MCCORNICK. A new bank can, if they do not belong to the association.

Mr. UNTERMYER. But I mean they can not go into the association if they choose to offer that inducement to their customers, can they?

Mr. MCCORNICK. No; without they would come in and conform to the rules.

Mr. UNTERMYER. You are familiar with the banking business all over the country, are you not?

Mr. MCCORNICK. Tolerably so.

Mr. UNTERMYER. Do you know of any of the great cities in which interest is not paid on checking accounts by some of the large banks?

Mr. MCCORNICK. I think it is done by trust companies more particularly.

Mr. UNTERMYER. No; I am speaking of banks. Do you know of any great city in which there are not some banks that allow interest on their checking accounts?

Mr. MCCORNICK. I do not know. I am not familiar with that.

Mr. UNTERMYER. You are not familar?

Mr. MCCORNICK. No, sir.

Mr. UNTERMYER. What are your deposits in your bank?

Mr. MCCORNICK. Around $7,000,000.

Mr. UNTERMYER. That is McCornick & Co.

Mr. MCCORNICK. Yes.

Mr. UNTERMYER. And the other bank, of which you are vice president, in Salt Lake City; what are the deposits of that?

Mr. MCCORNICK. I think about a million and a half. That is a trust company.

Mr. UNTERMYER. That is a trust company, is it?

Mr. MCCORNICK. Yes, sir.

Mr. UNTERMYER. I think that is all, Mr. McCornick.

Witness excused.

TESTIMONY OF FRANK KNOX.

The witness was sworn by the chairman.

Mr. UNTERMYER. Are you a resident of Salt Lake City?

Mr. KNOX. Yes.

Mr. UNTERMYER. What is your occupation?

Mr. KNOX. President of the National Bank of the Republic.

Mr. UNTERMYER. Of that city?

Mr. KNOX. Yes.

Mr. UNTERMYER. Was that among the banks that withdrew from the old clearing house and went into the new clearing house in 1912?

Mr. KNOX. Yes.

Mr. UNTERMYER. What was the purpose of doing so?

Mr. KNOX. To be a member of the clearing house association.

Mr. UNTERMYER. Yes; what was the purpose of getting out of the old one and getting into a new one with the same constitution as the old one?

Mr. KNOX. They wanted to organize a new association.

Mr. UNTERMYER. What was the purpose?

Mr. KNOX. I do not know as I understand your question.

Mr. UNTERMYER. I think you do, Mr. Knox, do you not? Why did you gentlemen all want to get out of one association with a constitution of a certain kind and get right into another with the same kind of constitution?

Mr. KNOX. I do not think it is the same kind. There are some changes in it, perhaps.

Mr. UNTERMYER. Are there or are there not?

Mr. KNOX. I think they desired to make some changes in it.

Mr. UNTERMYER. It was not to get rid of the Copper Bank, was it?

Mr. KNOX. Perhaps that was a part of it.

Mr. UNTERMYER. How much of a "perhaps" is there about that?

Mr. KNOX. I do not know, sir.

Mr. UNTERMYER. Not very much of a "perhaps" is there?

Mr. KNOX. There was no intention of getting rid of them. They could join the new one if they wanted to.

Mr. UNTERMYER. Why did you not simply expel them from the old one if you thought you could enforce those regulations to which they objected?

Mr. KNOX. I do not know.

Mr. UNTERMYER. What?

Mr. KNOX. I do not know.

Mr. UNTERMYER. Do you know why the new one was organized, unless it was to get rid of them or to force them——

Mr. KNOX. No; they were invited to join the new one.

Mr. UNTERMYER. They were invited to join the new one if they would subscribe to the constitution containing the provision to which they objected, were they not?

Mr. KNOX. I did not know that they objected to it until they refused to sign—refused to join.

Mr. UNTERMYER. Had they not objected to it in the old association?

Mr. KNOX. Yes.

Mr. UNTERMYER. And they objected to it in the old association and refused to abide by it. You did not know that they would object to it in the new constitution?

Mr. KNOX. They did not object to the new constitution. They only objected to rule 10–B.

Mr. UNTERMYER. Rule 10–B.

Mr. KNOX. I do not know that that is in the constitution of the new association.

Mr. UNTERMYER. Do you not know that that is in the new one?

Mr. KNOX. I do not know.

Mr. UNTERMYER. Do you know whether it is or not?

Mr. KNOX. No, sir.

Mr. UNTERMYER. Was rule 10–B in the constitution of the old association?

Mr. KNOX. Rule 10–B in the constitution of the old association prohibited the soliciting of business by the offer of something

which had not been offered before, and was not supposed to have been given by banks, to induce a man to change his account and to do business with a certain bank by paying something for a certain account, by giving him check books, or giving him some privilege that had not been given him.

Mr. UNTERMYER. You are in the new association?

Mr. KNOX. Yes, sir.

Mr. UNTERMYER. And you do not know whether that is a part of the constitution of the new association?

Mr. KNOX. I think it is.

Mr. UNTERMYER. You think it is?

Mr. KNOX. But I have not read it. I do not recall whether it is or not. I have been away a good deal, and I do not just recall what is in the new one.

Mr. UNTERMYER. And you do not know why you changed over from one association to the other?

Mr. KNOX. We had to change. They dissolved the old one.

Mr. UNTERMYER. You do not know why they dissolved the old one?

Mr. KNOX. They just voted to dissolve. They wanted to organize a new association; that was my understanding of it.

Mr. UNTERMYER. And you do not know why? [After a pause.] Will you answer?

Mr. KNOX. I never thought there was any particular reason for dissolving it. I was not in favor of it.

Mr. UNTERMYER. That is all you care to say on that subject, is it?

Mr. KNOX. As much as I care to say on it.

Mr. UNTERMYER. Do you know Park City?

Mr. KNOX. Yes.

Mr. UNTERMYER. Do you know the First National Bank of Park City?

Mr. KNOX. Yes.

Mr. UNTERMYER. How far is that from Salt Lake City?

Mr. KNOX. About 30 miles.

Mr. UNTERMYER. And it has a population of about 2,000 people?

Mr. KNOX. I do not know, indeed.

Mr. UNTERMYER. What?

Mr. KNOX. I do not know, sir.

Mr. UNTERMYER. Do you know Mr. J. C. Lynch?

Mr. KNOX. Yes.

Mr. UNTERMYER. Is he the vice president of the same bank of which you are president?

Mr. KNOX. He is now; yes, sir.

Mr. UNTERMYER. Did you and he together go to Park City on the 22d of November, 1912?

Mr. KNOX. We went there. I do not remember the date. It was about that time.

Mr. UNTERMYER. In November, 1912?

Mr. KNOX. I think so.

Mr. UNTERMYER. Did you take some checks with you?

Mr. KNOX. Yes.

Mr. UNTERMYER. Did they amount to about $31,000?

Mr. KNOX. Yes, sir.

Mr. UNTERMYER. And you went up for the purpose of presenting those checks at the counter of this little bank in Park City?

Mr. KNOX. That was a part of my business there.
Mr. UNTERMYER. I say you went up there for that purpose?
Mr. KNOX. I went up there to get the money and to attend to some other business there.
Mr. UNTERMYER. You did not go for the special purpose of demanding the money at the counter of that little bank?
Mr. KNOX. Not specially for that; no.
Mr. UNTERMYER. What other business did you have there?
Mr. KNOX. We thought we would go up to the Silver King mine. We were both interested there and Mr. Lynch wanted to.
Mr. UNTERMYER. Did you go there?
Mr. KNOX. No, sir.
Mr. UNTERMYER. You changed your mind and just went to the bank, did you?
Mr. KNOX. We visited around town and spent the day there.
Mr. UNTERMYER. You visited around town; and did you visit at the bank?
Mr. KNOX. No, sir; we just walked in there.
Mr. UNTERMYER. And having walked into that little bank, what did you do there?
Mr. KNOX. We presented these checks for payment.
Mr. UNTERMYER. I see. You demanded cash, did you not?
Mr. KNOX. Well, cash——
Mr. UNTERMYER. Did you demand cash?
Mr. KNOX. No, sir.
Mr. UNTERMYER. Did you get cash?
Mr. KNOX. Yes.
Mr. UNTERMYER. You did not ask for it?
Mr. KNOX. No, sir.
Mr. UNTERMYER. You knew, did you not, that the National Copper Bank was the correspondent in Salt Lake City of this little Park City Bank, did you not?
Mr. KNOX. Yes.
Mr. UNTERMYER. You knew, did you not, that they had four or five of the same directors on both boards; that they were closely affiliated?
Mr. KNOX. I knew that there were some of the same directors in the two.
Mr. UNTERMYER. Were these checks that you presented there checks that had been deposited in your bank?
Mr. KNOX. They were.
Mr. UNTERMYER. You knew, did you not, that if you went to the Copper Bank with those checks, in your own city, they would pay them?
Mr. KNOX. I did not know whether they would or not.
Mr. UNTERMYER. Did you not know that they had been paying them?
Mr. KNOX. No, sir.
Mr. UNTERMYER. You never heard that they paid checks drawn on the Park City Bank?
Mr. KNOX. They had not paid us any for a good while.
Mr. UNTERMYER. How long before that had they paid you any?
Mr. KNOX. Perhaps in June or July.
Mr. UNTERMYER. June or July, 1912?

Mr. KNOX. Yes.

Mr. UNTERMYER. Had you presented any after that?

Mr. KNOX. No.

Mr. UNTERMYER. Had you any reason to believe that the custom which had theretofore prevailed of paying the checks of this little bank would not continue?

Mr. KNOX. I did not know anything about it.

Mr. UNTERMYER. You did not know anything about it?

Mr. KNOX. No, sir.

Mr. UNTERMYER. But having theretofore, while your relations with the Copper Bank were friendly, and while they were in the association, been paid checks drawn on the Park City Bank, by the Copper Bank, why did you not go there to cash these checks?

Mr. KNOX. Because they were not a member of our association. They come up to our bank every day, and we go to their bank every day to cash checks, and we send them no business and they send us no business, and we did not try to get the money there.

Mr. UNTERMYER. You did not try to get it?

Mr. KNOX. No, sir.

Mr. UNTERMYER. Did it occur to you that by going to that little bank in that mining town and asking for $31,000 in currency you would create a flurry there?

Mr. KNOX. In the first place, we did not ask for $31,000 in currency, and we did not get it.

Mr. UNTERMYER. How much did you get?

Mr. KNOX. About $31,000.

Mr. UNTERMYER. I think that is all. Is there anything else you would like to say?

Mr. KNOX. Yes.

Mr. UNTERMYER. Then say it.

Mr. KNOX. In the first place, Mr. Armstrong never notified me he would pay the Park City Bank checks; and in the second place, I took those checks up there in my pocket, and no citizen knew I had them, and no one knew that I was going up there for that purpose. He made the statement that the citizens knew I had those checks for collection, and that they knew I was going up there to collect them. I deny that. No citizen knew any such thing; and in the second place, I collected them because I could save the express charges on them, which would have been about $34. There was not any animus about it at all.

Mr. UNTERMYER. Let us see about that for a moment. You say that you and the vice president of your bank both took a trip up there on the railroad?

Mr. KNOX. Yes.

Mr. UNTERMYER. And spent the day, did you not?

Mr. KNOX. Part of the day; as long as was necessary, until the train returned.

Mr. UNTERMYER. And you paid your railroad fare there and back?

Mr. KNOX. No; I went on a pass.

Mr. UNTERMYER. You went on a pass?

Mr. KNOX. Yes.

Mr. UNTERMYER. But you went up there and spent the day in order to save the express charges on the collection of that money, did you?

Mr. KNOX. That was a part of our business.

Mr. UNTERMYER. I say, that is the reason you went up there. You say it did not create any flurry in the town. Did you expect that they would have the currency on hand to pay you?

Mr. KNOX. Certainly.

Mr. UNTERMYER. You did? You thought they would have the currency on hand?

Mr. KNOX. Yes, sir.

Mr. UNTERMYER. What was the capital of the Park City Bank?

Mr. KNOX. $50,000.

Mr. UNTERMYER. $50,000, and you were drawing $31,000 in cash, were you not?

Mr. KNOX. Yes, sir.

Mr. UNTERMYER. You thought they would have that money ready for you?

Mr. KNOX. Yes, sir; I expected they would.

Mr. UNTERMYER. I believe that is all, unless there is something else you would like to say.

Mr. KNOX. I do not think of anything just now. I would like to make an explanation regarding the matter of interest.

Mr. UNTERMYER. Regarding what?

Mr. KNOX. The payment of interest on money in Salt Lake City.

Mr. UNTERMYER. Yes; we are not——

Mr. KNOX. If I may.

Mr. UNTERMYER. Very well; if you like.

Mr. KNOX. There is no desire to prohibit the payment of interest on money there; it is only the manner in which it shall be paid on deposits. Everybody can have a certificate of deposit there and get interest on it. It was only to preclude the payment of interest on checking accounts, which had never been the custom there.

Mr. UNTERMYER. It has never been the custom there?

Mr. KNOX. We have to carry reserves of 40 per cent in our deposits at all times, and we feel that we must have these interest-bearing deposits on time so that we may have proper notice of their withdrawal. We could not expect to pay interest on deposits and have them subject to call. You made a statement, or asked Mr. McCornick the question, whether the increased rate of interest did not recompense us for the payment of interest on deposits. You said other banks paid interest in other cities—nearly every large city. I do not know anything about that. But they have got large deposits. There is no bank in Salt Lake City which has $150,000,000 or $100,000,000 of deposits, or $50,000,000 of deposits. We only have a small amount of money there, scarcely enough to carry on the business, and it is impossible for us to carry on business on the same lines as they do in New York or other large cities where they have an immense amount of money on deposit, and loan it on call. There is no prohibition placed on Mr. Armstrong, and he can have just the same terms as we have.

Another thing; he says that his is a new bank. I started my bank there. They had a clearing house——

Mr. UNTERMYER. When was your bank started?

Mr. KNOX. In 1890.

Mr. UNTERMYER. And he was talking about a bank started in 1910, 20 years after yours was started.

Mr. KNOX. Yes.

Mr. UNTERMYER. Did you mean to have us understand that your bank was recently started?

Mr. KNOX. No, sir; I mean to say there was a clearing house there, and there had been other banks there in business from 20 to 30 years. I had to join the clearing house and I had to start up against those other banks, and Mr. McCornick, and I had banks there older than I was. I submitted to the clearing house rules, and it was not any handicap to me.

Mr. UNTERMYER. Now, let us see if we can get through with these things.

Mr. KNOX. All right.

Mr. UNTERMYER. Do you gentlemen understand that you have the right to prescribe what Mr. Armstrong and his associates do with their customers in dealings of that sort?

Mr. KNOX. Nor, sir; I do not.

Mr. UNTERMYER. Do you understand that you have the right to say that the Copper Bank shall not be a member of your association unless it shall not pay interest on checking accounts?

Mr. KNOX. I understand——

Mr. UNTERMYER. No; answer my question.

Mr. KNOX. If you please, I understand it that way; yes.

Mr. UNTERMYER. You do?

Mr. KNOX. Yes; they can not be a member unless they conform to the rules of the clearing house.

Mr. UNTERMYER. Yes; but suppose you chose to inaugurate a rule that you would charge 12 per cent on all the moneys borrowed from the bank; do you think you could put out another bank if they would not charge 12 per cent to their customers?

Mr. KNOX. No, sir.

Mr. UNTERMYER. What is the difference in principle between such a rule and the rule you sought to enforce upon the Copper Bank—that they must not allow a customer interest on a checking account?

Mr. KNOX. The greatest kind of a difference.

Mr. UNTERMYER. What?

Mr. KNOX. The supply and demand governs the price of money just as it does of any other commodity. Sometimes we have to charge more for money; we do not have any for loans.

Mr. UNTERMYER. If the supply and demand regulates the price of money, and the Copper Bank believes it will pay them to pay two and a half per cent interest on checking accounts, why should you interfere with them?

Mr. KNOX. We did not interfere with them?

Mr. UNTERMYER. Why should you interfere with that by expelling a member who would not conform to your rule?

Mr. KNOX. We did not expel them.

Mr. UNTERMYER. Why should you interfere with it by all of you pulling out of the association and leaving him alone?

Mr. KNOX. Because the Copper Bank desired to be a member of the clearing house association and still do as it pleased, and to be an outlaw and solicit business from customers of the other banks by paying a high rate of interest, which they knew the other banks were not paying, and they could have taken money on time deposits and paid interest—time deposits of six months—as the other banks did.

Mr. UNTERMYER. Is it, then, your idea that in order to be a member of the clearing house association a bank must bind itself not to compete with the other members of the association?

Mr. KNOX. Not at all. They can compete.

Mr. UNTERMYER. Was the Copper Bank doing anything more in wanting to allow interest on checking accounts than competing for new business?

Mr. KNOX. Yes.

Mr. UNTERMYER. What more were they doing?

Mr. KNOX. They were trying to have the other banks bound not to pay interest, while they were to have the privilege of paying interest on checking accounts and taking the business.

Mr. UNTERMYER. Do you not know that what they objected to was having that rule passed at all?

Mr. KNOX. They never objected to having the rule passed.

Mr. UNTERMYER. They never did? Did you hear the letter read from them in evidence here, in which they protested against the passage of that rule?

Mr. KNOX. I believe you are right about that.

Mr. UNTERMYER. Did you hear it?

Mr. KNOX. Yes; I believe I did.

Mr. UNTERMYER. What do you mean by saying they did not protest?

Mr. KNOX. They could have joined if they would have agreed to abide by the rules of the clearing house.

Mr. UNTERMYER. What do you mean by that?

Mr. KNOX. They protested against being bound by the rules, because they were going to the other banks' customers and offering interest every day.

Mr. UNTERMYER. They were offering interest?

Mr. KNOX. Yes; certainly.

Mr. UNTERMYER. And they did not want any rule that would prevent anybody from offering interest, did they?

Mr. KNOX. They did not want to be bound by that rule.

Mr. UNTERMYER. Is it not a fact that they objected to the rule being promulgated at all? [After a pause.] Will you not answer my question?

Mr. KNOX. I think that is right.

Mr. UNTERMYER. Then what they wanted was to have all the banks free to compete, was it not?

Mr. KNOX. Perhaps so. But they knew that the other banks were not paying interest on checking accounts.

Mr. UNTERMYER. Then why did you pull away from them because they wanted the banks left free to compete for business?

Mr. KNOX. It is customary for the majority to rule. Here were eight banks here, and that one bank wanted to be the whole thing.

Then, there is the matter of the check books.

Mr. UNTERMYER. Now, I have not asked you anything about check books.

Mr. KNOX. No. May I say something about them?

Mr. UNTERMYER. Yes; if it is brief.

Mr. KNOX. It is simply this: There was no charge made for the check books excepting the actual cost of the check books. There was

no conspiracy, as Mr. Armstrong says, to keep them from getting business.

Mr. UNTERMYER. Why should not a bank be allowed the privilege of giving check books to its customers?

Mr. KNOX. Because he agreed not to do it.

Mr. UNTERMYER. Why should you compel a bank not to do it?

Mr. KNOX. We did not compel them not to do it. They assumed the obligation voluntarily. Nobody compelled them to do it.

Mr. UNTERMYER. Do you not know that this rule was passed after this Copper Bank had become a member of the clearing house?

Mr. KNOX. Yes.

Mr. UNTERMYER. Then it is true, is it not, having joined the clearing house without such a rule, that you sought to enforce that rule upon them; did you or not?

Mr. KNOX. No, sir.

Mr. UNTERMYER. You did not?

Mr. KNOX. No, sir.

Mr. UNTERMYER. You passed it, did you not?

Mr. KNOX. They were perfectly free not to agree to it if they did not want to.

Mr. UNTERMYER. Do you mean that they need not adhere to the rule?

Mr. KNOX. No, sir; and they did not adhere to it. They violated it right along.

Mr. UNTERMYER. They could adhere to it and stay in the clearing house?

Mr. KNOX. Yes. The same as anybody else did.

Mr. UNTERMYER. Do you not know that all over the country banks are giving their customers check books?

Mr. KNOX. No, sir.

Mr. UNTERMYER. You do not?

Mr. KNOX. No, sir.

Mr. UNTERMYER. Do you not know that it is so in New York?

Mr. KNOX. No, sir.

Mr. UNTERMYER. You do not?

Mr. KNOX. No, sir.

Mr. UNTERMYER. And other cities?

Mr. KNOX. No, sir.

Mr. UNTERMYER. You never heard of it?

Mr. KNOX. I do not know anything about it.

Mr. UNTERMYER. You never inquired?

Mr. KNOX. No, sir; I never had occasion to.

Mr. UNTERMYER. What are your discount rates in Salt Lake City?

Mr. KNOX. From 5 to 8 per cent.

Mr. UNTERMYER. Is it nearer 8 or nearer 5?

Mr. KNOX. Some is 5 and some is 8. There is more of it at 8 than at 5.

Mr. UNTERMYER. And sometimes it is higher?

Mr. KNOX. Not that I know of.

Mr. UNTERMYER. Is there a uniform rate?

Mr. KNOX. No, sir.

Mr. UNTERMYER. Do you not all get together and agree on a rate?

Mr. KNOX. No, sir; we do not.

Mr. UNTERMYER. But the rate is uniform, is it not, in the association?

Mr. KNOX. I do not know. People come in to me and say that they can borrow money cheaper at McCornick's bank, or at some other bank, and if I do not want to meet the rate I tell them to go there and get it.

Mr. UNTERMYER. The general rate is 8 per cent?

Mr. KNOX. Yes; for small loans. For desirable loans it is about 6 per cent.

Mr. UNTERMYER. That is all.

Witness excused.

TESTIMONY OF MR. CHARLES S. BURTON.

The witness was sworn by the chairman.

Mr. UNTERMYER. What is your business, Mr. Burton?

Mr. BURTON. Banking.

Mr. UNTERMYER. At Salt Lake City?

Mr. BURTON. Yes, sir.

Mr. UNTERMYER. Are you president of a bank there?

Mr. BURTON. I am vice president of the Utah State National Bank.

Mr. UNTERMYER. Are you president of the clearing house association in Salt Lake City?

Mr. BURTON. No, sir; I am the secretary of the association.

Mr. UNTERMYER. Have you brought with you the minutes of the proceedings of your association—the old and the new?

Mr. BURTON. I have.

Mr. UNTERMYER. Before going into that, will you tell me whether or not you know Mr. Armstrong, president of the National Copper Bank?

Mr. BURTON. Yes, sir; I do.

Mr. UNTERMYER. You are familiar with this controversy over the clearing house association, are you not?

Mr. BURTON. Very; yes, sir.

Mr. UNTERMYER. Do you remember meeting Mr. Armstrong about three months ago at the Alter Club, Salt Lake City?

Mr. BURTON. I have frequently met him there. I do not remember any particular meeting.

Mr. UNTERMYER. Do you remember an occasion on which you said to him, in substance, that this was going to be a fight of eight against one, and that you were going to force him to sign these regulations?

Mr. BURTON. I recall that something was said in jollying, and I said it was a fight of eight to one. Then he said, "I will beat you, one by one," and I said, "All right."

Mr. UNTERMYER. Did you say you were going to force him to sign?

Mr. BURTON. No, sir; never.

Mr. UNTERMYER. You said you were going to beat him?

Mr. BURTON. Yes; and he said he would beat us, one by one.

Mr. UNTERMYER. That was not a joke, was it?

Mr. BURTON. Yes, sir.

Mr. UNTERMYER. It was a joke?

Mr. BURTON. Yes.

Mr. UNTERMYER. So that you were not trying to force him to sign?

Mr. BURTON. Not at all.

Mr. UNTERMYER. But you are trying to deprive him of the privileges of the association unless he does so?

Mr. BURTON. Naturally if he does not belong to an association he can not enjoy its privileges.

Mr. UNTERMYER. The point is here: Do you exact as a condition of his belonging to the association that he shall agree not to allow any interest to customers on checking accounts?

Mr. BURTON. Except he submit the matter to the executive committee, as explained in the rules.

Mr. UNTERMYER. Who constitutes the executive committee?

Mr. BURTON. Mr. Farnsworth, Mr. Knox, Mr. McCornick, former Gov. Cutler, and myself.

Mr. UNTERMYER. Mr. McCornick has been a member of that executive committee for over 20 years, has he not?

Mr. BURTON. I do not think he has.

Mr. UNTERMYER. He has been for how many years?

Mr. BURTON. For a long time. It may have been continuous. I do not know that.

Mr. UNTERMYER. About how long?

Mr. BURTON. I guess it is about as long as the association has been there.

Mr. UNTERMYER. That is about 22 years, is it not?

Mr. BURTON. I do not recall when the association was first organized.

Mr. UNTERMYER. And these other men have been for a long time on that committee. It has not changed for many years, has it?

Mr. BURTON. Not much. Of course, other bankers have gone out of business and have died, and younger men, like myself, have come in.

Mr. UNTERMYER. But, in the meantime, the banks that had checking accounts on which they were paying interest were allowed to continue to pay interest on those accounts, were they not?

Mr. BURTON. Yes.

Mr. UNTERMYER. That put a new bank at a great disadvantage, did it not?

Br. BURTON. It put it at some disadvantage. If you will let me explain to the committee.

Mr. UNTERMYER. Certainly.

Mr. BURTON. Mr. Armstrong said "When I have been in business as long as you have I will come in and join the association and subscribe to it and be as good as you are." We said, "We will show you the accounts on which we are paying interest." He said, "All right." But presently he backed down, and did not want to show.

Mr. UNTERMYER. He did not want what?

Mr. BURTON. He did not want to show the accounts that he was paying interest on. I was not paying interest on over half a dozen accounts, and I am not to-day.

Mr. UNTERMYER. You say Mr. Armstrong did not want to expose to you the accounts on which he was paying interest?

Mr. BURTON. At first he said he would, but it was a bluff.

Mr. UNTERMYER. I see. It was a bluff, because he was playing against eight of you?

Mr. BURTON. Apparently. I do not know what it was. He did not want to show his hand.

Mr. UNTERMYER. Inasmuch as there were eight old concerns against one new one you were not surprised at that, were you?

Mr. BURTON. Certainly. When we had been in business 20 years, and were willing to show our accounts, he should have been willing to show his.

Mr. UNTERMYER. Do you feel, Mr. Burton, that you gentlemen have a right to get into a combination of this kind and regulate the business of every member?

Mr. BURTON. To the extent that is defined by that rule, I thought we had. We may be mistaken.

Mr. UNTERMYER. You do an interstate business, do you not; all of you?

Mr. BURTON. Yes; we have business outside of Utah, of course.

Mr. UNTERMYER. Of course. You collect checks throughout the country?

Mr. BURTON. Yes.

Mr. UNTERMYER. Have you got a uniform rate of commission collection charge?

Mr. BURTON. Yes; to which Mr. Armstrong was glad to subscribe.

Mr. UNTERMYER. I say, you have a uniform rate?

Mr. BURTON. Yes.

Mr. UNTERMYER. Whether he was glad to subscribe or not, he could not enjoy the privileges of the association without doing so, could he?

Mr. BURTON. He did get into the association, and he did subscribe to it.

Mr. UNTERMYER. I say, he could not have gotten in without doing so?

Mr. BURTON. No.

Mr. UNTERMYER. That is the the respect in which he was glad to do it, is it not? What is your commission charge on collecting out-of-town checks, as prescribed by the association? Is it a graded charge?

Mr. BURTON. It is a graded charge; yes. It is usually about one-tenth of 1 per cent to noncorrespondents. With those banks who do business with us we make no charge.

Mr. UNTERMYER. Why do you not let every bank have its own dealings with its customers and make its own arrangements with its customers, whether they charge them anything or not?

Mr. BURTON. He may, if he does not belong to the association.

Mr. UNTERMYER. I say, why does not the association allow the individual banks to make their own arrangements with their customers for collecting out-of-town checks?

Mr. BURTON. I presume it is a selfish motive. We want to make a little money.

Mr. UNTERMYER. You want to make a little more, and always a little more. Is that it?

Mr. BURTON. Let me explain this point. When we adopted, first, our articles of association, we copied after Omaha, Denver, Tacoma, Seattle, San Francisco, and Los Angeles, and our rules and regulations followed in a general way all of theirs.

Mr. UNTERMYER. You have gone far ahead of them, however, have you not?

Mr. BURTON. Maybe we have, in this one respect, as to interest.

Mr. UNTERMYER. Do you not know, Mr. Burton, that none of these cities, and no other city in the United States, has any regulation that requires its members not to pay interest on checking accounts?

Mr. BURTON. I do not know that.

Mr. UNTERMYER. Do you know whether it has or not? Do you know of anyone that has?

Mr. BURTON. No, sir; I do not.

Mr. UNTERMYER. Then you are a sort of a pioneer on that subject?

Mr. BURTON. We are a pioneer in many ways.

Mr. UNTERMYER. Some accounts are very much better than others, are they not, Mr. Burton?

Mr. BURTON. Yes.

Mr. UNTERMYER. You know that the bank could well afford to pay interest on one kind of checking accounts?

Mr. BURTON. Yes, sir.

Mr. UNTERMYER. And could not afford to pay on another?

Mr. BURTON. Yes, sir.

Mr. UNTERMYER. You know, do you not, Mr. Burton, that there are some checking accounts that would be more valuable than other time accounts?

Mr. BURTON. Yes, sir.

Mr. UNTERMYER. And yet you allow the banks freedom as to charging interest on time accounts?

Mr. BURTON. Yes.

Mr. UNTERMYER. And you do not allow it as to checking accounts?

Mr. BURTON. No, sir; we believe it is ruinous.

Mr. UNTERMYER. What do you mean by "ruinous"?

Mr. BURTON. I mean we can not make very much money. If we open the door once and pay John, then we have to pay Dick and we have to pay Harry, and everybody.

Mr. UNTERMYER. Let us see about that. Up to 1912 you had no such regulation, had you?

Mr. BURTON. No, sir; we did not need it.

Mr. UNTERMYER. I said you had none until then?

Mr. BURTON. No, sir.

Mr. UNTERMYER. And no other city in the country ever had one of that kind, so far as you know?

Mr. BURTON. No, sir.

Mr. UNTERMYER. Do you know of any banks that have been ruined by it?

Mr. BURTON. No, sir; but I know some whose undivided profits are very small.

Mr. UNTERMYER. You know the profits of the other banks?

Mr. BURTON. Only what they tell me.

Mr. UNTERMYER. What you mean by its being ruinous, then, is that you could not make as much money without the rule as with it?

Mr. BURTON. Yes.

Mr. UNTERMYER. That is all there is to it, is it not?

Mr. BURTON. That is about it.

Mr. UNTERMYER. And if you should inaugurate a rule to-morrow not to allow any interest on time deposits, you would make still more money, would you not?

Mr. BURTON. Yes.

Mr. UNTERMYER. Do you favor that, too?
Mr. BURTON. No, sir.
Mr. UNTERMYER. That is all, Mr. Burton, unless there is something you would like to say.
Mr. BURTON. I would like to say, in regard to one point that was raised by you, this: You asked the question whether or not there was a uniform rate of discount. I believe, however, that was answered by the other banker.
Mr. UNTERMYER. He said there was not.
Mr. BURTON. That question has never entered into the banking situation.
Mr. UNTERMYER. Why is it not just as reasonable for your association to pass a rule to-morrow fixing a uniform discount rate, as to pass a rule now refusing and preventing your members from allowing interest on checking accounts?
Mr. BURTON. Probably it would be as reasonable. We have not done it, though.
Mr. UNTERMYER. The logic is the same?
Mr. BURTON. Practically.
Mr. UNTERMYER. Is there any limit to which you could go on that view of your rights?
Mr. BURTON. I presume not.
Mr. UNTERMYER. That is all.

Witness excused.

TESTIMONY OF L. H. FARNSWORTH.

The witness was sworn by the chairman.
Mr. UNTERMYER. You are a banker in Salt Lake City?
Mr. FARNSWORTH. Yes, sir.
Mr. UNTERMYER. Are you the president of the Salt Lake City Clearing House Association?
Mr. FARNSWORTH. I am.
Mr. UNTERMYER. Have you heard Mr. Burton's testimony this afternoon?
Mr. FARNSWORTH. Yes, sir.
Mr. UNTERMYER. And do you subscribe to the reasons that he has given for this controversy between the National Copper Bank and the other banks in Salt Lake City?
Mr. FARNSWORTH. Not entirely; but almost.
Mr. UNTERMYER. Has he substantially stated your views of the facts?
Mr. FARNSWORTH. Yes, sir.
Mr. UNTERMYER. In what respect do you differ from him?
Mr. FARNSWORTH. To my mind, as a matter of sound banking, and especially in our section, I do not think it a wise rule to pay interest generally on checking accounts. I think it is rather unwise in that the banks out in our section need very heavy reserves. We have no opportunities of lending money upon demand, and as a principle I think it is unsound.
Mr. UNTERMYER. The National Copper Bank is considered a safe, sound bank, is it not?
Mr. FARNSWORTH. Yes, sir.
Mr. UNTERMYER. Well managed?

Mr. FARNSWORTH. Yes, sir.

Mr. UNTERMYER. The banks of Salt Lake City prior to the promulgation of this rule had been paying interest on checking accounts, had they not?

Mr. FARNSWORTH. As I understand it, we have always had this rule, though it has not been printed in the by-laws.

Mr. UNTERMYER. Do you not know, Mr. Farnsworth, that there was no such rule until it was presented in 1910 and gave rise to the protest?

Mr. FARNSWORTH. There was no printed rule, but there was a general understanding among the bankers not to pay interest.

Mr. UNTERMYER. But there were checking accounts that were drawing interest in some banks, were there not? Every bank had some, did it not?

Mr. FARNSWORTH. There were some checking accounts, yes; but not generally.

Mr. UNTERMYER. Did you not have some?

Mr. FARNSWORTH. I do not think we did, unless it might be railroad accounts.

Mr. UNTERMYER. What is the difference between a railroad account and some other account?

Mr. FARNSWORTH. None, except that those funds might be deposited in other cities.

Mr. UNTERMYER. Where you had to compete with other cities you paid interest; is that right?

Mr. FARNSWORTH. In some cases; yes, sir.

Mr. UNTERMYER. And where you did not have other cities to compete with you thought yourselves at liberty to get together and prevent the banks from paying interest?

Mr. FARNSWORTH. I believe that rule, or that principle, is followed in many sections, if I am not mistaken. I understood you to ask the question or make the suggestion that Salt Lake City was the pioneer in this rule. Is that correct?

Mr. UNTERMYER. Yes. Do you know of any city in the United States in which the clearing-house association promulgates a rule which it enforces on every member that it can not pay interest on certain accounts?

Mr. FARNSWORTH. I do not know, but I have understood——

Mr. UNTERMYER. I asked you if you know.

Mr. FARNSWORTH. I do not know of my own knowledge, but I understood that our rules——

Mr. UNTERMYER (interposing). I will say to you that we have not come across any.

Do you agree that there is no more reason or logic to support such a rule than if you were to promulgate a rule fixing a uniform rate of discount?

Mr. FARNSWORTH. There is a little difference.

Mr. UNTERMYER. What is the difference?

Mr. FARNSWORTH. There is this difference: That in regulating the interest or charge for borrowed money—in fixing the interest rate—it depends upon conditions.

Mr. UNTERMYER. Do you not think that in determining whether you will allow interest on checking accounts it depends upon conditions, too?

Mr. FARNSWORTH. It does, I suppose, to some extent.
Mr. UNTERMYER. Does it or not?
Mr. FARNSWORTH. Yes.
Mr. UNTERMYER. There is no difference in principle between the two?
Mr. FARNSWORTH. I think so. I do not know just how to explain myself.
Mr. UNTERMYER. I would like to have you point it out.
Mr. FARNSWORTH. Your question is, then, that there is no difference between not paying interest on balances and in fixing the rate of interest.
Mr. UNTERMYER. No. My question is this: Do you see any difference between the clearing-house association saying to its members, "You shall not pay interest on checking accounts" and the clearing-house association saying to its members, "You shall charge a fixed rate of interest on money you lend"?
Mr. FARNSWORTH. I guess there is very little difference.
Mr. UNTERMYER. There is not any difference, is there?
Mr. FARNSWORTH. Perhaps not.
Mr. UNTERMYER. As to the personnel of the board of directors of the National Copper Bank—you know the men, do you not?
Mr. FARNSWORTH. Yes.
Mr. UNTERMYER. Are they all high-class men?
Mr. FARNSWORTH. Yes; they are a very high grade of men.
Mr. UNTERMYER. And it is a dignified, well-conducted bank?
Mr. FARNSWORTH. Yes, sir.
Mr. UNTERMYER. That is all.

Witness excused.

TESTIMONY OF MR. GEORGE HENRY.

The witness was sworn by the chairman.
Mr. UNTERMYER. Where do you reside?
Mr. HENRY. I live at Morristown, N. J.
Mr. UNTERMYER. Where is your place of business?
Mr. HENRY. 25 Broad Street, New York City.
Mr. UNTERMYER. What is your business?
Mr. HENRY. I am a banker.
Mr. UNTERMYER. Of what firm are you a member?
Mr. HENRY. William Saloman & Co.
Mr. UNTERMYER. You are a partner in that firm?
Mr. HENRY. Yes, sir.
Mr. UNTERMYER. How long have you been engaged in the banking business in New York?
Mr. HENRY. I have been in the business ever since I came out of college, which was about 12 years ago.
Mr. UNTERMYER. Are you a member of the New York Stock Exchange?
Mr. HENRY. No, sir.
Mr. UNTERMYER. Is any member of your firm a member of the exchange?
Mr. HENRY. Yes; one of my partners.
Mr. UNTERMYER. Which one of your partners?
Mr. HENRY. Mr. Stewart Waller.

Mr. UNTERMYER. Was your firm concerned in the promotion and flotation of the California Petroleum Co.?

Mr. HENRY. I would not say we were engaged in its promotion. We bought some stocks from the men who did promote it.

Mr. UNTERMYER. Did you buy stocks in conjunction with Lewisohn Bros. and Hallgarten & Co. incident to the organization of the company? Was it not all practically one transaction?

Mr. HENRY. It was practically all one transaction; yes, sir.

Mr. UNTERMYER. It amounted, in effect, to a promotion, did it not?

Mr. HENRY. I should not think so.

Mr. UNTERMYER. Well, let us see what happened. There was a company organized——

Mr. HENRY. Just a moment, Mr. Untermyer. We did not buy these stocks in conjunction with them. They bought them in conjunction with us.

Mr. UNTERMYER. Oh. They bought them in conjunction with you, but you did not buy them in conjunction with them. I see.

Mr. HENRY. It was our business.

Mr. UNTERMYER. Well, having passed that bridge——

Mr. HENRY (continuing). It was not their business.

Mr. UNTERMYER. Let us see what happened. There was a company organized, was there not?

Mr. HENRY. Yes, sir.

Mr. UNTERMYER. At what time?

Mr. HENRY. I shall have to refer to the dates.

Mr. UNTERMYER. It was in September, 1912, was it not?

Mr. HENRY. I do not believe I have the date of the incorporation here. It was in the latter part of September.

Mr. UNTERMYER. In the latter part of September, 1912?

Mr. HENRY. Yes.

Mr. UNTERMYER. Under the laws of what State?

Mr. HENRY. Virginia.

Mr. UNTERMYER. It was a corporation organized under the Virginia law to carry on business in California?

Mr. HENRY. No. It was to hold the stocks of two California companies.

Mr. UNTERMYER. Who organized that company? It was organized through what counsel?

Mr. HENRY. It was done by Messrs. Kellogg, Emory, Boston & Cuthell, who were counsel for Doheny & Canfield.

Mr. UNTERMYER. Who represented you?

Mr. HENRY (continuing). Their local counsel in Virginia was Mr. Williams's firm. I have forgotten the name of it; the firm of Mr. Randolph Williams.

Mr. UNTERMYER. Was your firm at all represented in the organization of the company?

Mr. HENRY. As to all the part of it with which we had anything to do, our counsel were Cravath, Henderson & de Gersdorff.

Mr. UNTERMYER. There were several counsel for the interests in the company, who looked after the organization of the company?

Mr. HENRY. That is right, sir.

Mr. UNTERMYER. And you were represented in its organization through your counsel?

Mr. HENRY. In so far as its organization affected us, we were.

Mr. UNTERMYER. You were acquiring the stock as an incident to this incorporation or organization?

Mr. HENRY. That is the way it worked out.

Mr. UNTERMYER. Yes. So that you did have something to do with the promotion of the company?

Mr. HENRY. Not directly.

Mr. UNTERMYER. Well, let us see about that. What was the capital of this company?

Mr. HENRY. It was organized with an authorized amount of $15,000,000 preferred and $17,500,000 of common stock.

Mr. UNTERMYER. How much of it was issued in conjunction with this negotiation to which you were a party?

Mr. HENRY. I do not know whether my papers will show me that or not. I can tell you how much we bought.

Mr. UNTERMYER. No, no. Just recognize the distinction, please, between the two propositions, Mr. Henry, if you will.

The question is: How much was issued to the vendors and how much was left in the treasury, if anything was left?

Mr. HENRY. At the time of the original issue, there was an issue to Doheny & Canfield of $11,997,024 preferred stock and $13,513,081 of common stock.

Mr. UNTERMYER. Of which you and your associates undertook to purchase how much?

Mr. HENRY. We purchased $10,000,000 of preferred stock and $7,572,845 of common stock.

Mr. UNTERMYER. That entire transaction was conducted and arranged at one time, was it not? That is, that the company should be organized, that its capital should be fixed at a given amount, and that you and your associates should acquire a given part of it?

Mr. HENRY. It was all a part of the same deal.

Mr. UNTERMYER. It was all a part of the same transaction?

Mr. HENRY. Certainly.

Mr. UNTERMYER. And, that being so, I understand you to say you had nothing to do with the promotion or organization of the company?

Mr. HENRY. We had nothing to do directly with it. I think there is a very important distinction there, Mr. Untermyer. We had nothing whatever to do with the promotion of the company. We bought stock from two men. We are not promoters.

Mr. UNTERMYER. I understand, Mr. Henry, your hesitation at the suggestion that you are promoters.

Mr. HENRY. Not necessarily.

Mr. UNTERMYER. The question is not what you think you were, but what you did; and the contract would show that, would it not?

Mr. HENRY. I think so.

Mr. UNTERMYER. Have you got the contract here between Doheny & Canfield on the one part and your firm on the other?

Mr. HENRY. I have.

Mr. UNTERMYER. Please produce it.

The paper referred to was produced by the witness, and thereupon marked "Exhibit No. 149. January 6, 1913."

Mr. UNTERMYER. This contract is between Doheny & Canfield and William Saloman & Co., dated the 16th of September, 1912.

You do not consider, Mr. Henry, that under the terms of that contract you and Doheny & Canfield together promoted the organization of this company in connection with the purchase by your firm of part of the securities of the company provided to be organized?

Mr. HENRY. I do not know just what you are trying to get at, Mr. Untermyer. What do you want me to admit?

Mr. UNTERMYER. I do not want you to. I want you to answer the question.

Mr. HENRY. The facts were these: Doheny & Canfield had two properties out in California, held by two different companies, which they wanted to put together, and which they did put together; and after they had put those two properties together, alhough it was all done at the same time, we purchased some of the preferred stock and some of the common stock of the new company from them.

Mr. UNTERMYER. Is it not a fact that it was not after they had put them together, but a part of the deal by which they put them together, that you were to buy the stock?

Mr. HENRY. Certainly.

Mr. UNTERMYER. And that you do not call being interested in the promotion?

Mr. HENRY. I should not say that we were not interested in the promotion. I do not say that. I said we were not directly promoters in it.

Mr. UNTERMYER. Were you not joint promoters with them?

Mr. HENRY. I should not say so. I think we were interested in the promotion.

Mr. UNTERMYER. I read from this Exhibit No. 149. This is from Doheny & Canfield [reading]:

SEPTEMBER 16, 1912.

Messrs. WILLIAM SALOMON & Co.,
New York City.

GENTLEMEN: We hereby offer to sell and deliver to you for the sum of $8,215,662 in cash, $10,000,000 par value of the preferred stock, and $7,572,845 per value of the common stock of the California Petroleum Corporation, a corporation to be organized under the laws of the State of Virginia, to which we shall make an offer in form and terms hereto annexed.

Have you the offer?

Mr. HENRY. I have.

Mr. UNTERMYER. Let me have it.

The paper referred to was handed to counsel for the committee.

Mr. UNTERMYER (continuing reading):

Delivery of temporary voting trust certificates for the common stock and temporary stock certificates in negotiable form shall be made at your office in the city of New York. The first payment shall be at least $4,000,000, and shall be made as soon as the corporation is organized and the stock issued to us, which shall not be later than October 15, 1912, and the balance of the purchase price shall be paid from time to time thereafter at your convenience, provided that not less than $2,000,000 thereof shall be paid within 30 days after the first payment, and the entire balance within 60 days after such first payment. Each payment after the first shall be made with interest thereon from the date of the first payment at 6 per cent per annum. The amounts of stock of each class delivered at the time of each such payment shall be substantially in proportion to the principal of such payment.

The common stock delivered to you is to be represented by voting trust certificates in form and terms satisfactory to you; the voting trustees to be E. L Doheny, C. A. Canfield, and G. G. Henry—

Is that you?

Mr. HENRY. Yes, sir.

Mr. UNTERMYER (continuing reading):

with the right to each of the former to nominate the successor of the other and the right to William Salomon & Co. to nominate the successor of Henry; the voting trust to continue for five years.

For the preferred and common stocks issued to us and not sold to you we are to accept scrip of the company and the voting trustees, respectively, exchangeable on or after October 1, 1913, but not before that date without your consent, for such stock and voting trust certificates.

Provision shall be made in the charter or by-laws of the California Petroleum Corporation, or in such other manner as your counsel may approve, to the effect that the corporation shall have a finance committee of its board, and that all its financial affairs shall be in the hands of such finance committee, and that such finance committee shall have the power to approve any action of the board relating to financial affairs before the same shall become effective. Such committee shall have a membership of three, two of whom are to be nominated by you and one by us.

That is, Salomon & Co. were to have two out of the three members of the finance committee?

Mr. HENRY. That is right.

Mr. UNTERMYER. And yet you do not think you were a party to the promotion? And you were to be one of the voting trustees for the stock?

Mr. HENRY. I was.

Mr. UNTERMYER. Do you not think you would like to change your mind about that, Mr. Henry?

Mr. HENRY. I have never said that we did not have anything to do with the promotion. I said we were not directly concerned about it; and I still do not think we were.

Mr. UNTERMYER. Do you not think you were very directly concerned, under this agreement?

Mr. HENRY. No, sir; I do not—not directly.

Mr. UNTERMYER. All right. [Continuing reading:]

This arrangement as to membership shall only continue so long as any of the preferred stock shall remain outstanding, but not longer than the continuance of the voting trust.

The undersigned will serve as directors and officers of the California Petroleum Corporation for three years from its organization, and will give its affairs such consideration and attention as its best interests may require.

All matters of a legal character, including approval of titles, shall be subject to approval of your counsel.

That is, Salomon & Co.'s counsel?

Mr. HENRY. Yes.

Mr. UNTERMYER. All right. [Continuing reading:]

The preferred stock of the California Petroleum Corporation, and provisions for its protection, are described in schedules A and B annexed.

Kindly indicate your acceptance of this offer within 10 days from date, during which time we agree that it shall remain open in order that you may endeavor to form a syndicate.

Very truly, yours,

E. L. DOHENY.
C. A. CANFIELD.

Have you the acceptance?

Mr. HENRY. I do not think I have that with me. It was very brief. It was just an acknowledgment of their letter.

Mr. UNTERMYER. You were subpœnaed to produce that, were you not?

Mr. HENRY. I do not know that I was. I may say, Mr. Untermyer, that I prepared these papers about two weeks ago, when I came down here first.

Mr. UNTERMYER. I call your attention, in connection with your statement that you did not know whether you were asked to produce the acceptance, to the third and fourth paragraphs of your subpœna?

Mr. HENRY. I have it now.

Mr. UNTERMYER. You find that you were asked to produce it, do you not?

Mr. HENRY. If you tell me I was, I was.

Mr. UNTERMYER. Is this the acceptance [referring to paper]?

Mr. HENRY. That is the letter—the acknowledgment of that one of theirs.

Mr. UNTERMYER. This is not the acceptance.

Mr. HENRY. Here is the rest of it [handing papers to counsel].

Mr. UNTERMYER. Yes. We will offer these as exhibits.

The papers referred to were thereupon marked, respectively, Exhibits Nos. 150 and 151.

Mr. UNTERMYER. Will you be good enough, Mr. Henry, to produce the various schedules that are referred to in the original offer?

The witness produced the papers, which were thereupon offered in evidence and marked Exhibits Nos. 152 and 153.

Mr. UNTERMYER. Does that complete it?

Mr. HENRY. Yes.

Mr. UNTERMYER. These are the documents referred to in Exhibit No. 149.

The exhibits last referred to will be found at the end of to-day's proceedings.

The CHAIRMAN. The usual hour of adjournment having arrived, we will suspend until to-morrow morning at 11 o'clock.

Whereupon, at 4.10 o'clock p. m., an adjournment was taken until to-morrow, January 7, 1913, at 11 o'clock a. m.

EXHIBIT No. 148, JANUARY 6, 1913.

(Exhibit A.)

CONSTITUTION OF THE SALT LAKE CLEARING HOUSE ASSOCIATION.

The undersigned banking institutions and banking houses in Salt Lake City, Utah, hereinafter designated either as banks or as members, for the purpose of effecting a more perfect and satisfactory settlement of the daily exchanges and balances between them, of maintaining friendly and harmonious relations, and of promoting uniform, safe, and efficient banking methods, hereby associate themselves for the maintenance of a clearing house, and do hereby agree upon and adopt the following constitution:

ARTICLE I.

The name of the association shall be the Salt Lake Clearing House Association.

ARTICLE II.

The objects of the association shall be the effecting at one place of the daily exchanges between the several banks, the settlement of the balances resulting

from such exchanges, the adoption and enforcement of such rules and regulations as will encourage mutual trust and confidence, and promote uniform methods, safety, and efficiency in the transaction of banking business among themselves, with their customers and with the public. And for the purpose of accomplishing these objects, the associates reserve the right by a majority vote to amend these articles of agreement, to adopt additional rules and regulations, and to enforce any of its articles, orders, rules, or regulations by fines, suspension, or expulsion, as hereinafter set forth, or as may be hereafter provided.

ARTICLE III.

The association consists of the banks and banking institutions which subscribe to this agreement: *Provided*, That any member reodganizing under State or national laws may, with the consent of the executive committee, continue its membership.

ARTICLE IV.

SECTION 1. The officers of the association shall be a president, vice president, secretary, and treasurer, who shall be elected by ballot from among the representatives of the members at the annual meeting, and shall hold their offices for one year, or until their successors are elected and qualified.

There shall also be chosen by ballot from the representatives of the members at their annual meeting a standing committee of five, to be called the executive committee, of whom the president of this association must be one, who shall hold their offices for one year, or until their successors are elected and qualified.

SEC. 2. All books, records, papers, and other property of the association shall be surrendered by the several officers and committees to their successors in office.

ARTICLE V.

SECTION 1. A general annual meeting of the association shall be held at the clearing house on the second Thursday in January in each year at 11 o'clock a. m. for the election of officers and executive committee, and of any other standing committee, and for the hearing of annual reports and for any other business that may be brought before it.

SEC. 2. Special meetings of the association shall be called by the president or by the executive committee whenever the president or said committee may deem it expedient or be requested so to do by three members of the association, and in all such cases the president or the executive committee, as the case may be, shall cause notice of the meeting to be given in writing at the banking house of each member. Not less than two hours' notice shall be given, and if less than four hours' notice be given the written notice shall contain a brief statement of the purpose of the meeting, and no business shall be taken up except that specified in the notice.

SEC. 3. At all meetings of the association each member may be represented by one of its officers or directors and shall be entitled to one vote. The president may vote as a member or he may have the casting vote in case of a tie when his bank has not voted on the question as a member. At all meetings of the association a quorum for the transaction of business shall consist of a majority of the whole number of members, and all questions shall be decided by a majority vote of the members present, except as otherwise specially provided. Should there be no quorum present the meeting may be adjourned by those then present to any subsequent time. Voting by proxy shall not be allowed.

ARTICLE VI.

The association shall not in any way be responsible either in regard to the exchanges or the balances resulting therefrom, nor in regard to any errors, reclamations, or default between the several members. The exchange and delivery of checks at the clearing house shall be in trust until the debit balances are paid. The action of the clearing house is that of an agent, and in no case is the association to be held responsible for any loss that may occur.

ARTICLE VII.

It shall be the duty of the president to preside at all meetings of the association, to call such meetings as are required to be called by him, and to exercise,

under the direction of the executive committee, a general supervision over the clearing-house affairs and to perform the duties pertaining to an executive officer He shall also be ex officio chairman of the executive committee and of all standing committees, having in committee one vote.

ARTICLE VIII.

In the absence or inability of the president the vice president shall perform all his duties. In the absence of both the president and the vice president a president pro tempore may be appointed at any meeting.

ARTICLE IX.

The secretary and treasurer shall keep an exact record of proceedings of the meetings of the association and report annually his receipts and disbursements, accompanied by receipted vouchers, and shall perform all duties usually pertaining to the office of secretary and treasurer. In the event of his temporary absence a secretary pro tempore may be appointed at any meeting, but in the event of his resignation or inability to perform his duties the executive committee shall appoint another member of the association to be secretary and treasurer for the unexpired term.

ARTICLE X.

SECTION 1. The executive committee shall procure a suitable office or offices for the clearing house; provide proper books, stationery, furniture, and whatever else may be necessary; appoint annually a manager and any other employees who may be required, fix their salaries, and require such securities for the faithful performance of their duties as the committee may deem best. The committee may suspend or remove the manager or any employees of the clearing house when, in the opinion of the committee, the interests of the association require it; may fill any vacancies in the offices of employees ocurring during the year, and establish any new rules and regulations in cases not provided for, subject to revision by the association, and shall supervise generally the clearing-house affairs.

SEC. 2. The executive committee shall have charge of all property of the association. It shall exercise all the powers of the association in the interim between meetings, and any action taken by it shall stand as the act of the association until reversed, changed, or modified at a regular or special meeting of the association.

SEC. 3. The executive committee shall hold meetings whenever called together by the president or by a majority of its members.

SEC. 4. The executive committee shall make report to the association upon all applications for membership. It shall have power in case of extreme emergency to suspend, by unanimous vote of those present entitled to vote upon the question, any bank from the privileges of the clearing house until the pleasure of the association therein shall be ascertained: *Provided*, That no member of the committee shall vote upon any question involving the suspension of the bank represented by him in the association; in case of such suspension the executive committee shall forthwith call a meeting of the association to take action in the matter.

SEC. 5. The executive committee shall act as a committee of arbitration to hear and determine all disputes that may be submitted to it by parties thereto, being members of the clearing-house association; such committee shall keep a record in brief of each case referred to it, and of its decision therein, in a book to be provided for that purpose and to be kept at the clearing house open to the inspection of the association; should any member of this committee of arbitration be disqualified from acting by reason of being a party to the dispute, the other members of the committee shall select another representative, a member of the association, to fill, temporarily, the place of the disqualified.

A majority of the committee shall be a quorum for the transaction of business, and a majority decision of such quorum shall be valid and binding upon the parties to the dispute: *Provided*, That an appeal may be taken to the association within five days.

ARTICLE XI.

The manager shall be subject to the control of the executive committee; he shall have immediate charge of all business at the clearing house, so far

as relates to the manner in which it shall be transacted, and the employees of the establishment as well as the settling clerks and messengers of the several members, while at the clearing house, shall be under his direction; he shall report monthly to each member such errors as its settling clerk or messenger may commit; he shall keep in books provided for the purpose a faithful record of all clearances and settlements and preserve all vouchers and see that the clearing-house rooms and the property connected therewith are kept in order; he shall also prepare an annual report of the business for the annual meeting and perform such other duties as may be required of him.

ARTICLE XII.

SECTION 1. Application for new membership shall be made to the executive committee and by it reported upon and referred for action to the association. New members may be admitted at any meeting of the association by an affirmative vote by ballot of three-fourths of the members. New members shall pay an initiation fee of $500 each, and shall signify their assent to the constitution and by-laws and pay their quota of current expenses in the same way as the original members.

SEC. 2. Any member may withdraw from the association at pleasure by giving notice in writing to the executive committee of its intention to withdraw and paying its due proportion of its expenses and obligations theretofore incurred.

SEC. 3. For cause deemed sufficient any member may be expelled and debarred from all the privileges of the association by an affirmative vote of three-fourths of the members of the association at any meeting called for the purpose of considering the question.

SEC. 4. Whenever a member shall withdraw or be expelled it shall be the duty of the executive committee to ascertain the just and equitable right of the member in any moneys on hand or tangible property of the association, and to certify to the secretary and treasurer the amount so ascertained. Upon the payment or tender of such sum all right, title, and interest of such withdrawn or expelled member in any of the property or to any of the benefits of the association shall forthwith be terminated.

ARTICLE XIII.

The expenses of the clearing house shall be borne and paid by the several members of the association as follows: Each member shall pay a quarterly fee of $25 whenever the funds in the treasury shall be less than $500; the balance of funds required shall be made up by assessment levied by the executive committee upon the members in proportion to the amounts cleared by them, respectively, during the preceding quarter. This assessment shall be paid to the secretary and treasurer on his draft.

ARTICLE XIV.

Two copies of this constitution shall be signed by an authorized officer of each bank and shall be kept, one by the president and one by the secretary of the association. It shall be the duty of the secretary and treasurer to furnish to the members promptly copies of all amendments and additions to these articles.

ARTICLE XV.

Any violation of any of the provisions of this agreement or of the rules and regulations of the clearing house, any acts or declarations upon the part of any member evidencing a refusal upon its part to abide by the constitution or rules of the association, and any conduct deemed prejudicial to the interests of the association shall be punishable by fine, suspension, or expulsion, as may be deemed proper by the association. Fines may be imposed by the executive committee, but suspension or expulsion shall be only upon the affirmative vote of three-fourths of the members of the association. Any supposed violation of the articles, rules, or regulations of the association or conduct deemed prejudicial to its interests shall be investigated by the executive committee. Any member complained of or under investigation must, on notice, appear and answer all questions pertaining to the inquiry and submit all books and records required. This committee shall take action thereon, and in the event that the matter is deemed to be of sufficient importance to warrant either suspension or

expulsion, it shall cause to be called a meeting of the association to consider the matter. Nothing herein contained shall prevent complaint being made to the association as to the conduct of any member, whether the matter complained of shall have been investigated by the executive committee or not.

ARTICLE XVI.

SECTION 1. Amendments to the preamble or to Articles I to XVI, inclusive, of this constitution may be made at any meeting of the association by a vote of three-fourths of all members of the association, notice of any proposed amendment having been given in writing at least five days previously to such meeting.

SEC. 2. Any rule or regulation contained in Article XVII of this constitution may be amended and any new rule or regulation may be added at any meeting upon a majority vote.

ARTICLE XVII.

This article contains the rules for the government of the association, its officers and employees, in the conduct of its clearing house. These may be altered, repealed, or added to at any meeting of the association.

RULES.

1. At 10.30 a. m. on each business day messengers from the several banks shall present at the clearing house their respective demands against each member, totalized, and after exchanging shall determine and make known the debit or credit balance to the manager, who will, when proof is made, issue his certificate on the following form, to the creditor on the debtor members, for the balance due:

Salt Lake Clearing House Association ———.

No. ———.

Pay to (No. ———) $——— (dollars). Account debit balance resulting from the adjustment of exchanges made this date between members of this association.

Not negotiable or transferable.

To (No. ———).

———— ————,
Manager.

SALT LAKE CITY, UTAH.

Proper matter for the clearing house shall consist of all checks, drafts, certificates of deposit, and any other matter especially agreed upon by any member, until notice to the contrary is given.

2. It shall be the duty of the banks holding the manager's certificate issued in settlement for balances, to collect the same daily, and should any bank fail to pay the balance against it on presentation of the said certificate, the amount of that balance shall be supplied to the manager by the members to whom the defaulting bank is a debtor, in proportion to the amounts due to them respectively from the defaulting bank, according to the exchanges of that day, the manager making the necessary requisitions upon them, so that the general settlement may be completed with as little delay as possible. Afer clearing, the respective amounts so supplied to the clearing house on account of the defaulting bank will constitute claims on the part of the several responding members against the defaulting members; but the association shall in no wise be responsible therefor.

3. Errors in the exchanges and claims arising from the return of checks, or from any other cause, are not to be adjusted through the clearing house, but directly through the members who are parties to them; all checks, drafts, notes, or other items in the exchanges found not good, or missent, shall be returned without mutilation, or notice of dishonor given directly to the member from whom they were received, as soon as examined, or presented, not later than 2.30 p. m. on the day of clearance in which said return vouchers were exchanged, and the said member shall immediately refund to the banks returning the same the amount for which it had received credit through the clearing house, for the said checks, drafts, notes, or other items so returned to it: *Provided*, Such return and refund shall, on Saturdays, be made not later than 11.30 a. m.

4. In case of default by any member, all checks and vouchers delivered through the clearing house to such defaulting members shall be returned, if required, to the member owning the same, without mutilation, but the association shall not be responsible therefor.

5. All negotiable paper deposited for clearance by the members of this association shall bear the stamp of the depositing bank, which shall clearly indicate the name of the bank, its clearing house number, and the date of clearance. The stamp shall be for clearing-house purposes only, and shall guarantee the validity and regularity of all prior indorsements on the paper so cleared, except the indorsement of an original payee of a certificate of deposit, and it shall not be construed to supply a missing indorsement.

6. Each bank shall file with every other member of this association a certified impression of its clearing-house stamp and certification stamp, and the signature of persons authorized to certify and indorse checks.

7. Checks shall be made payable in current funds, except that when the executive committee authorizes the issue of clearing house certificates, checks may be drawn payable in clearing-house funds.

8. Members of this association shall not open their respective offices for business except between the hours of 10 a. m. and 3 p. m. on business days: *Provided*, That the hours of business on Saturdays shall be from 9 a. m. to 12 m.

9. No member shall directly or indirectly pay interest upon an open or checking account, excepting from the accounts of banking institutions, and in no case shall interest be allowed to such institutions upon daily balances at a rate in excess of 2½ per cent per annum: *Provided*, That where arrangements have heretofore been entered into between a member of the association and a depositor not a banking institution, which require the payment of interest, they shall not be disturbed, and the same arrangements may be continued by any other member succeeding to the account: *And provided further*, That application may be made by a member to the executive committee for permission, and permission may be granted. to pay interest upon a checking or open account upon a statement in writing of the facts and reasons therefor: *And provided further*, That public funds shall not be subject to this rule.

10. The following charges shall be made upon escrow:

A deposit fee of $2.50, payable in advance, where the sum does not exceed $1,000.

A deposit fee of $5, payable in advance, where the amount involved exceeds $1,000.

In addition to said deposit fee, a charge at the rate of 50 cents per $1,000 (minimum fee 10 cents) shall be made upon all amounts paid under the provisions of any escrow agreement.

11. A charge shall be made for all domestic exchange sold at not less than the following rates: On all single drafts of $5 or less, 5 cents. On all single drafts over $50 and not exceeding $100, 10 cents. On all drafts aggregating over $100, one-tenth of 1 per cent.

No charge need be made upon drafts issued to the Government of the United States or its disbursing officers, to express companies, to telegraph companies, to interstate railroad companies or their subsidiary companies, to nonresident customers, to banks in Salt Lake City or their corresponding banks, or for the trading of western for eastern exchange, or vice versa, with customers outside of Utah.

A charge shall be made upon all telegraph transfers at not less than the following rates:

One-fourth of 1 per cent on all amounts up to $1,000, minimum charge 50 cents.

One-eighth of 1 per cent on all amounts over $1,000, minimum charge $2.50.

One-tenth of 1 per cent on all amounts transferred by telegraph, in addition to cost of telegram, shall be made to all banks.

12. Where a remittance letter contains a check or checks, including cashier's checks, dated and issued at Salt Lake City or County, drawn upon any bank in Salt Lake City, whether remitted for credit or for collection and returns, and bearing the indorsement of any person, firm, or corporation, bank or banker located outside the States of Utah, Idaho, Montana, Wyoming, and Nevada, a charge of not less than one-tenth of 1 per cent, minimum charge 15 cents, shall be made by the receiving bank upon the total amount of such checks, provided that no charge need be made for checks of $5 or less.

Where local checks are received for credit of an account kept with the receiving bank, no charge need be made, but where checks are received from

a bank with which the receiving bank keeps an account, the regular charge shall be made.

13. A charge of one-tenth of 1 per cent, minimum charge 15 cents for each item, shall be made upon all items in excess of $5 received for collection by any bank in this city and requiring returns in exchange. In the event of failure to collect, a minimum charge of 15 cents for each item shall be made to defray the cost of handling same. Regular correspondents may be exempted from this charge.

A charge of 10 cents for each item, in addition to the cost of collection, may be made upon all collections received from local customers and payable outside of Salt Lake City; this charge to be payable in advance, and to be retained whether item is collected or not.

14. A charge of not less than one-tenth of 1 per cent shall be made upon sight drafts cashed or credited on receipt, when drawn upon any point where days of grace are allowed.

15. No clearing-house bank shall clear checks for any bank in this city that does not comply with the constitution and rules of the clearing house.

16. No refund or rebate shall be made to offset or reduce any of the charges hereinbefore provided. Any evasion of the letter or spirit of these rules shall be considered a violation.

17. Check books and tabbed checks furnished by the clearing-house banks of Salt Lake City shall be charged for according to the following schedule:

Books or tabs containing 200 checks	$1.25
Books or tabs containing 300 checks	1.50
Books or tabs containing 400 checks	1.75
Books or tabs containing 500 checks	2.00
Books or tabs containing 1,000 checks	4.00

Checks lithographed to order will be charged for at actual cost. No charge need be made for check books furnished to the disbursing officers of the United States Government.

The only exceptions to the above rules are United States Government and public accounts and customers residing and doing business outside of Salt Lake County.

18. Banks will not allow overdrafts, except of a temporary nature; customers to be notified with a special request not to overdraw the account.

19. Items on points other than Salt Lake City, received through the clearing house from associate members, and thereafter lost in transit through no negligence of the receiving bank, may be charged back to the sending bank. In receiving checks, drafts, or other paper, on deposit or for collection, a member acts only as agent, and assumes no responsibility for the acts, omissions, neglect, or default of agents or subagents at other points. Any credit allowed for items on other banks or parties is only provisional until the proceeds thereof in money shall have been actually received by the member.

20. Applications for contributions from members of the association to charities, celebrations, excursions, local organizations, etc., shall be referred to the executive committee, provided that any member may contribute not to exceed the sum of $10 to such purposes, without reference to the committee.

The names and clearing-house numbers of the members of this association and the date of subscription hereto of each is as follows, to wit:

No. ———. ——— ———,

EXHIBIT No. 149, JANUARY 6, 1913.

SEPTEMBER 16, 1912.

Messrs. WILLIAM SALOMON & Co.,
New York City.

GENTLEMEN: We hereby offer to sell and deliver to you for the sum of $8,215,662 in cash $10,000,000, par value, of the preferred stock and $7,572,845, par value, of the common stock of California Petroleum Corporation, a corporation to be organized under the laws of the State of Virginia, to which we shall make an offer in form and terms hereto annexed.

Delivery of temporary voting-trust certificates for the common stock and temporary preferred stock certificates in negotiable form shall be made at your

office in the city of New York. The first payment shall be at least $4,000,000 and shall be made as soon as the corporation is organized and the stock issued to us, which shall not be later than October 15, 1912; and the balance of the purchase price shall be paid from time to time thereafter at your convenience, provided that not less than $2,000,000 thereof shall be paid within 30 days after the first payment and the entire balance within 60 days after such first payment. Each payment, after the first, shall be made with interest thereon from the date of the first payment at 6 per cent per annum. The amounts of stock of each class delivered at the time of each such payment shall be substantially in proportion to the principal of such payment.

The common stock delivered to you is to be represented by voting-trust certificates in form and terms satisfactory to you, the voting trustees to be E. L. Doheny, C. A. Canfield, and G. G. Henry, with the right to each of the former to nominate the successor of the other and the right to William Salomon & Co. to nominate the successor of Henry; the voting trust to continue for five years.

For the preferred and common stocks issued to us and not sold to you we are to accept scrip of the company and the voting trustees, respectively, exchangeable on or after October 1, 1913, but not before that date without your consent, for such stock and voting-trust certificates.

Provision shall be made in the charter or by-laws of the California Petroleum Corporation, or in such other manner as your counsel may approve, to the effect that the corporation shall have a finance committee of its board and that all its financial affairs shall be in the hands of such finance committee, and that such finance committee shall have the power to approve any action of the board relating to financial affairs before the same shall become effective. Such committee shall have a membership of three, two of whom are to be nominated by you and one by us. This arrangement as to membership shall only continue so long as any of the preferred stock shall remain outstanding, but not longer than the continuance of the voting trust.

The undersigned will serve as directors and officers of the California Petroleum Corporation for three years from its organization and will give its affairs such consideration and attention as its best interests may require.

All matters of a legal character, including approval of titles, shall be subject to approval of your counsel.

The preferred stock of the California Petroleum Corporation and provisions for its protection, are described in Schedules A and B annexed.

Kindly indicate your acceptance of this offer within 10 days from date, during which time we agree that it shall remain open in order that you may endeavor to form a syndicate.

Very truly, yours,

E. L. DOHENY.
C. A. CANFIELD.

EXHIBIT No. 150, JANUARY 6, 1913.

California petroleum corporation.

WILLIAM SALOMON & Co.,
September 19, 1912.

Messrs. E. L. DOHENY and C. A. CANFIELD,
New York.

GENTLEMEN: We have your letter of September 16. We are proceeding in the endeavor to form a syndicate, and shall inform you of our determination within the period of 10 days fixed by your letter.

We beg to advise you that we are informed by Messrs. Salomon & Co., London, that the change contemplated in Schedule B is agreeable to them, and therefore confirm that the modifications therein proposed are adopted.

Yours, very truly,

——— ———.

EXHIBIT No. 151, JANUARY 6, 1913.

WILLIAM SALOMON & Co.,
September 25, 1912.

Messrs. E. L. DOHENY and C. A. CANFIELD,
New York.

DEAR SIRS: Referring further to your letter of September 16, offering to sell to us for the sum of $8,215,662 in cash $10,000,000 par value of the preferred

stock and $7,572,845 par value of the common stock of California Petroleum Corporation, we now beg to advise you that we have determined to accept said offer and agree to purchase said stock at said price and upon the terms and conditions set forth in your letter.

Yours, very truly, ——— ———.

EXHIBIT No. 152, JANUARY 6, 1913.

NEW YORK, *September —, 1912.*

TO THE BOARD OF DIRECTORS OF THE CALIFORNIA PETROLEUM CORPORATION:

GENTLEMEN: The undersigned own or control upward of 80 per cent of the capital stock of the American Petroleum Co. and of the American Oilfields Co., respectively, both of which are operating companies organized under the laws of the State of California, having themselves interests in a number of subsidiary corporations. We shall probably acquire most, if not all, of the balance of the stock of both companies. For the purpose of bringing into closer relations the management and operations of those two companies we offer to sell and deliver to you all of such stock now owned or controlled by us or acquired by us within six months on the basis of the issue to us or our order of $12,500,000 par value, out of $15,000,000 authorized of your preferred stock, and of $15,000,000 par value, out of $17,500,000 authorized of your common stock, for all of the outstanding preferred (20,959 shares) and all of the common stock outstanding (124,684 shares) of the American Petroleum Co., together with all of the stock (183,038 shares) of the American Oilfields Co., the par value of all of said shares being $100 each, together with the sum of $2,200,000 in cash. As we can now deliver to you only eighty per cent of the stocks of the above companies, we propose to pay you cash in excess of the amount above stipulated, such excess cash to be returned to us accompanied by amounts of your stock, in the manner hereinafter set forth, if and as we from time to time make delivery to you of portions of the remaining 20 per cent of the stocks of the above companies; and we propose that deliveries and payments be not made pro rata, but in the following manner:

We deliver to you at once upon the acceptance of this offer the following: Eighty per cent of the outstanding preferred stock of the American Petroleum Co., or in all $1,676,720 par value; 80 per cent of the common stock of the American Petroleum Co., or in all $9,974,720 par value; 80 per cent of the stock of the American Oilfields Co, or in all $14,643,040 par value; cash, $3,400,156.40.

Receiving in exchange therefor stock of your company as follows: Preferred stock, par value, $11,997,024; common stock, par value, $13,513,081.

We will at the same time, in addition to the cash above specified, pay to your company in cash the amount of any and all dividends which at or before the date of such delivery shall have been actually paid or become payable to others than your corporation, upon the above-specified shares of stock of the American Oilfields Co. and the American Petroleum Co., subsequent to any dividends for the month of August, 1912, payable on or about October 1, 1912, thereon.

The deliveries and payments hereinabove specified of and for said 80 per cent of the stocks of said companies shall be absolute and unconditional, and neither party shall have any right to any rebate or repayment of or on account of the delivery or nondelivery of the remaining 20 per cent of the stocks of said companies, except as hereinafter expressly stated.

We shall not be liable for failure to secure said remaining 20 per cent, but are to use our best efforts to do so, and will deliver to you so much thereof as we obtain during six months from the date hereof, and you shall be firmly bound to receive the same as offered to you from time to time within said period and to deliver in exchange therefor to us or our order stocks and cash as follows:

(*a*) For each share of preferred stock of the American Petroleum Co.: $20 par value of your preferred stock, $75 par value of your common stock, and $40 in cash.

(*b*) For each share of the common stock of the American Petroleum Co.: $8 par value of your preferred stock, $25 par value of your common stock, and $37 in cash.

(*c*) For each share of stock of the American Oilfields Co.: $6 par value of your preferred stock, $15 par value of your common stock, and $3 in cash.

By acceptance hereof your company will agree (1) not to purchase or contract or negotiate for the purchase from others of any of said remaining stocks of the American Petroleum Co. or the American Oilfields Co. at any time within one year from the date hereof; (2) to purchase from us forthwith upon the acceptance of this offer $1,000,000 par value of the outstanding bonds of the American Oilfields Co. at the price of 80 per cent of the face value thereof and accrued interest, which bonds we agree, if this offer is accepted, to sell and deliver to you at that price; (3) to purchase from us if tendered to you at any time or from time to time within six months from the date hereof not exceeding $323,000 face value additional of said bonds at said price of 80 per cent, plus accrued interest; (4) not to purchase or contract or negotiate for the purchase from others of any of the bonds of said issue at any time within one year from the date hereof.

In lieu of preferred stock certificates deliverable to us pursuant hereto, you are to issue and we to accept scrip of your company exchangeable on or after October 1, 1913 (but not before that date without the consent of the bankers to be designated by us), for such preferred stock certificates.

We hand you herewith report of Messrs. Price, Waterhouse & Co., dated ———, upon the American Petroleum Co. and the American Oilfields Co., also letter from Messrs. Price, Waterhouse & Co., dated ———, together with the reports of Dr. Ralph Arnold and of ——— O'Melveney, dated, respectively, ———, 1912, and ———, 1912.

Yours, truly,

C. A. C.
E. L. D.

EXHIBIT No. 153, JANUARY 6, 1913.

SCHEDULE A.

The preferred stock shall be entitled to a cumulative yearly dividend at the rate of 7 per cent per annum from the date of the organization of the California Petroleum Corporation, payable quarterly, and each such quarterly dividend shall be paid or provided for before any dividend for that quarter shall be declared or paid upon or set apart for the common stock; and no dividend shall be paid or declared on the common stock in any fiscal year until all arrearages of dividends on the preferred stock have been paid and the full dividend on the preferred stock for the current quarter of such fiscal year shall have been paid or provided for.

The preferred stock shall also be entitled to participate pro rata with the common stock in all dividends declared in any year after dividends of 7 per cent have been eclared and set apart upon the common stock in such year.

The preferred stock shall also be entitled to priority in the payment of principal out of the assets of the company over the common stock to its full par value, with all arrearages of dividends, and in the event of any voluntary liquidation of the company, caused otherwise than by bankruptcy or insolvency, it shall be entitled to receive 120 per cent of its par value plus arrearages of dividends before any of the company's assets are distributed to the holders of the common stock. After payment of the amounts hereinabove specified to the holders of the preferred stock they shall have no further share or portion of the company's assets.

The preferred stock shall be redeemable, in whole or in part, at 120 per cent of its par value and accrued dividends upon 40 days' notice by mail or publication. The method in which such redemption shall be carrried out shall be as provided by the by-laws from time to time, which shall conform to the requirements of the New York Stock Exchange.

For the purpose of creating a sinking fund for the purchase or redemption of the bonds of subsidiary companies or the preferred stock of this corporation there shall be set aside out of the net earnings of the company remaining after the payment of full dividends with all arrearages thereon upon the preferred stock, and before the payment of any dividends upon the common stock, within 30 days after January 1 in each year, beginning with the year 1915, an amount equal to 5 cents for each barrel of petroleum sold by the California Petroleum Corporation or any subsidiary company during the preceding year: *Provided, however*, That if the California Petroleum Corporation shall own less than all the outstanding stock of any subsidiary company the sinking fund upon that company's sale shall be that proportion of 5 cents

which the amount of stock held bears to the total amount outstanding. The obligation to carry such amount to the preferred-stock sinking fund shall be cumulative, so that if in any year the amount of the net earnings shall be insufficient to permit of the transfer to such fund of the full amount specified, or for any other reason such amount shall not be set aside and credited to the sinking fund, the deficiency shall be made good out of the net earnings of the next succeeding fiscal year or years before any dividend is set apart for or paid upon the common stock.

All moneys credited to the preferred-stock sinking fund so created shall be applied as promptly as practicable, under suitable regulations, to the purchase or redemption of the bonds of the subsidiary companies or preferred stock of the California Petroleum Corporation from time to time outstanding: *Provided*, That all such purchases shall be at the lowest price at which they can reasonably be obtained, not exceeding, however, in case of preferred stock, 120 per cent of par and accrued dividends, or, in case of the bonds, the redeemable price.

In case sufficient bonds or preferred stock to exhaust the moneys in the sinking fund shall not be purchased at or below said prices, the balance of the said moneys shall be applied to the redemption of said preferred stock at the redemption price above named, and may be so applied together with other funds of the company whenever the company shall determine to exercise its right of partial redemption.

The moneys in the sinking fund shall not be required to be actually withdrawn from the business of the company until the actual application thereof to the purchase or redemption of bonds and shares of the preferred stock; but such moneys shall not be made the basis of a stock or cash dividend or otherwise distributed among the holders of the common stock nor shall said sinking fund be depleted nor be used in any way which will interfere with the application thereof to the purchase or redemption of bonds and shares of the preferred stock as above provided.

Without the affirmative vote or written consent of at least three-fourths in amount of the preferred stock the corporation shall have no power: (1) To change, either by increase, diminution, or otherwise, the voting powers of either class of stock; (2) to sell or otherwise dispose of by conveyance, transfer, lease, mortgage, or otherwise turn over the property, franchise, and business of the corporation in their entirety or any stocks of American Oilfields or American Petroleum Cos.; (3) to create or to permit any subsidiary company to create any mortgage or other lien upon its real or personal property to secure an issue of bonds or otherwise or to issue any additional bonds under any present mortgage; (4) to create or issue any shares of stock which shall take priority over or any additional shares of stock which shall be on a parity with the said authorized $15,000,000 of preferred stock; (5) to issue any of the additional authorized preferred stock over and above $13,000,000 thereof unless the net earnings of the company applicable to dividends on the preferred stock for the last preceding fiscal year or the last preceding 12 calendar months shall be equal to twice the annual dividends on the outstanding preferred stock, including the new preferred stock to be so issued.

The preferred stock shall have no voting power unless and until the company shall fail to pay four quarterly dividends thereon, in which case and so long as there shall be any arrearages of dividends due and unpaid upon the preferred stock the holders of the preferred stock voting as a class shall have the power to elect a majority of the board of directors of the company, the remaining members of said board being elected by the holders of the common stock voting as a class.

(Signed) C. A. C.
E. L. D.

SCHEDULE B.

It is agreed that, subject to the approval by Salomon & Co., of London, Schedule A and the letter to the board of directors of the California Petroleum Corporation hereto annexed shall be amended as follows:

1. The amount of authorized preferred stock will be $17,500,000 instead of $15,000,000, of which $2,500,000 can only be issued to acquire additional income-producing oil properties.

2. No preferred stock in excess of $12,500,000 shall be issued before October 1, 1913, without the consent of William Salomon & Co., but otherwise no restrictions apply during this period except provision No. 1 above.

3. It is understood that the preferred stock will participate equally with the common in any dividends in excess of 7 per cent declared on the common during any fiscal year, without reference to the fact that the common may not have received 7 per cent cumulatively from the organization of the company.

4. It is understood that the company is to have the right to pay common-stock dividends partly in cash and partly in stock without the preferred stockholders having the right to require that any part of such common stock issue should be distributed to them unless the aggregate of cash and stock dividends upon the common stock in any fiscal year exceeds 7 per cent, in which event that part of the dividend paid in stock shall be regarded as the excess dividend.

(Signed) E. L. D.
C. A. C.

UNITED STATES
HOUSE OF
REPRESENTATIVES

MONEY TRUST
INVESTIGATION

16-29

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